

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF EATON RAPIDS, MICHIGAN	County EATON
Fiscal Year End JUNE 30, 2006	Opinion Date NOVEMBER 8, 2006	Date Audit Report Submitted to State DECEMBER 27, 2006	

We affirm that:

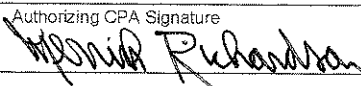
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) SINGLE AUDIT REPORTS	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.		Telephone Number (517)332-1900		
Street Address 1000 COOLIDGE RD		City EAST LANSING	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Merrick Richardson		License Number 5710

CITY OF EATON RAPIDS, MICHIGAN

EATON COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

AND

INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

CONTENTS

	FINANCIAL STATEMENTS PAGE	SUPPLEMENTAL MATERIAL PAGE
INDEPENDENT AUDITORS' REPORT	1-2	
MANAGEMENT'S DISCUSSION AND ANALYSIS		3-8
GENERAL PURPOSE FINANCIAL STATEMENTS		
Description		9
Statement of Net Assets	10-11	
Statement of Activities	12-13	
Balance Sheet – Governmental Funds	14-15	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17	
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	18-19	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Funds	21	
Statement of Net Assets – Proprietary Funds	22-23	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	24	
Statement of Cash Flows – Proprietary Funds	25-26	
Statement of Fiduciary Net Assets – Fiduciary Funds	27	
Balance Sheet – Nonmajor Governmental Funds	28	
Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	29	
Statement of Net Assets – Component Units	31	
Statement of Activities – Component Units	32-33	
Notes to Financial Statements	35-52	
REQUIRED SUPPLEMENTAL INFORMATION		
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	54-56	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Street Fund	57	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Local Street Fund	58	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Parks and Recreation Fund	59	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Blended Component Unit – Building Authority	60	

CONTENTS - Continued

	FINANCIAL STATEMENTS PAGE	SUPPLEMENTAL MATERIAL PAGE
FINANCIAL STATEMENTS OF INDIVIDUAL FUNDS		
GENERAL FUND		
Description		61
Balance Sheet	62	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	63	
Statement of Expenditures - Budget and Actual	64	
MAJOR SPECIAL REVENUE FUNDS		
Description		65
Combining Balance Sheet	66	
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	67	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual		
ACT 302 Training	68	
Building Department	69	
Drug Law Enforcement	70	
NON-MAJOR CAPITAL PROJECTS FUNDS		
Description		71
Balance Sheet	72	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual		
Public Improvement	73	
ENTERPRISE FUNDS		
Description		75
Balance Sheet	76-77	
Statement of Revenues, Expenses and Changes in Retained Earnings	78	
Statement of Cash Flows	79-80	
Analysis of Revenues and Expenses	81	
Statement of Operating Expenses	82	
INTERNAL SERVICE FUNDS		
Description		83
Combining Balance Sheet	84	
Combining Statement of Revenues, Expenses and Changes in Retained Earnings	85	
Combining Statement of Cash Flows	86	

CONTENTS - Concluded

	FINANCIAL STATEMENTS PAGE	SUPPLEMENTAL MATERIAL PAGE
PERMANENT FUNDS		
Description		87
Combining Balance Sheet	88	
Statement of Revenues, Expenses and Changes in Fund Balance	89	
Statement of Cash Flows	90	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	91	
SINGLE AUDIT		
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	93-94	
Schedule of Findings and Questioned Costs	95	
Notes to Schedule of Expenditures of Federal Awards	97	
Schedule of Federal Financial Assistance	98-99	
Letter of Comments and Recommendations	101-103	



Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

Merrick A. Richardson, CPA
Principal
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

David Layton, CPA
DaveLayton@LNRCPA.com

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Eaton Rapids, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and each major special revenue fund, for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2006, on our consideration of the City of Eaton Rapids, Michigan's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eaton Rapids, Michigan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Eaton Rapids, Michigan. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Layton & Richardson PC

Certified Public Accountants

East Lansing, Michigan
November 8, 2006

City of Eaton Rapids, Michigan

Management's Discussion and Analysis

The City of Eaton Rapids's discussion and analysis is a narrative overview of the City's financial activities for the year ended June 30, 2006. The information presented here should be read in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the twelve month period ended June 30, 2006:

- State shared revenues, our second largest General Fund revenue source, continue to decline this fiscal year. This reduction represents a continued trend over the past several years and amounts to a reduction since the State's 2000/01 fiscal year of 45% in the Statutory portion of the payments. While the Constitutional portion of the payments remains stable, the statutory portion is adjusted downward so that the net amount remains fairly static. Given the current State budgetary trends, we do not anticipate that the reductions in the Statutory portion of our payments will be reversed in the short run (two to three years). There have been discussions among the various stakeholders on the restructuring of State revenues for all local government units, however, no timetable has emerged and more pressing state budgetary needs are now facing the Governor and the legislature as the single business tax has been sunset early leaving an anticipated shortfall in the state budget that needs to be addressed. What appears to be clear is that the structural inequities incorporated into the implementing legislation for the Headley Amendment created a long term problem for most if not all cities, including the City of Eaton Rapids.
- Interest revenues from investments remain lower than recent historical trends but has started to improve slightly.
- Recent legislative activity at both the state and federal level have put in question the general fund revenue received from franchise fees, and it is anticipated that this revenue source will trend downward over the course of the next few years.
- The local property tax base continues growing on an incremental basis due to generally favorable housing conditions in the southeastern portion of Eaton County and generally moderate housing costs when compared with other, more developed areas surrounding the greater Lansing residential market. Overall there has been a noticeable slowdown in the housing market as well as a disturbing trend of higher foreclosure rate over the past twelve to eighteen months. However, the General Fund tax revenues are still anticipated to continue to increase at a modest but predictable rate.
- Total net assets related to the City's governmental activities increased by approximately \$290,466.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Eaton Rapids on a government-wide basis. They are designed to present a longer-term view of the City's finances. These statements measure the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

Reporting the City of Eaton Rapids as a Whole

One of the most important questions asked about the City of Eaton Rapids's finances is, "Is the City of Eaton Rapids as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City of Eaton Rapids as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City of Eaton Rapids's *net assets* and changes in them. You can think of the City of Eaton Rapids's net assets – the difference between assets and liabilities – as one way to measure the City of Eaton Rapids's financial health, or *financial position*. Over time, *increases* or *decreases* in the City of Eaton Rapids's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City of Eaton Rapids's captured property tax base to assess the *overall health* of the City of Eaton Rapids.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

Reporting the City of Eaton Rapid's Most Significant Funds

The fund financial statements provide detailed information about the City of Eaton Rapid's funds. The City of Eaton Rapid's funds utilize the *governmental* accounting approach.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.
- **Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets and liabilities agree.
- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Eaton Rapid's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.
- **Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.
- **Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund. The combining statements in connection with non-major governmental funds are presented immediately following the notes to financial statements.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

The City of Eaton Rapids as a Whole

Statement of Net Assets — As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Eaton Rapids' assets exceeded total liabilities by \$13,560,601 at the close of June 30, 2006. The following table shows, in a condensed format, the net assets as of June 30, 2006 and 2005.

City of Eaton Rapids' Net Assets June 30, 2006 and 2005

	GOVERN- MENTAL ACTIVITIES 2006	GOVERN- MENTAL ACTIVITIES 2005	BUSINESS- TYPE ACTIVITIES 2006	BUSINESS- TYPE ACTIVITIES 2005	TOTALS 2006	TOTALS 2005
Current assets	\$ 2,203,572	\$ 2,111,185	\$ 2,375,520	\$ 2,148,070	\$ 4,579,092	\$ 4,259,255
Noncurrent assets						
Restricted assets			1,800,916	1,785,935	1,800,916	1,785,935
Other				21,459		21,459
Capital assets	<u>4,980,162</u>	<u>5,017,802</u>	<u>16,535,873</u>	<u>12,275,150</u>	<u>21,516,035</u>	<u>17,292,952</u>
TOTAL ASSETS	\$ <u>7,183,734</u>	\$ <u>7,128,987</u>	\$ <u>20,712,309</u>	\$ <u>16,230,614</u>	\$ <u>27,896,043</u>	\$ <u>23,359,601</u>
Current liabilities	\$ 345,582	\$ 435,196	\$ 1,429,070	\$ 1,134,637	\$ 1,774,652	\$ 1,569,833
Long-term liabilities	<u>3,098,196</u>	<u>3,219,770</u>	<u>9,458,779</u>	<u>5,309,988</u>	<u>12,556,975</u>	<u>8,529,758</u>
TOTAL LIABILITIES	3,443,778	3,654,966	10,887,849	6,444,625	14,331,627	10,099,591
Net assets						
Invested in capital assets --						
Net of related debt	17,902	17,902	6,489,373	6,799,091	6,507,275	6,816,993
Restricted	331,586	285,379	1,391,896	1,391,897	1,723,482	1,677,276
Unrestricted	<u>3,390,468</u>	<u>3,170,740</u>	<u>1,943,191</u>	<u>1,595,003</u>	<u>5,333,659</u>	<u>4,765,743</u>
TOTAL NET ASSETS	\$ <u>3,739,956</u>	\$ <u>3,474,021</u>	\$ <u>9,824,460</u>	\$ <u>9,785,991</u>	\$ <u>13,564,416</u>	\$ <u>13,260,012</u>

Approximately 1 % of the City's net assets of governmental activities reflect its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$3,390,468 represent the amount that may be used to meet the City's ongoing obligations.

Changes in Net Assets — The City's total net assets increased by \$367,022 during the fiscal year. Governmental activities net assets increased by \$286,651 and the Business-type activities net assets increased by \$76,556.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

City of Eaton Rapids Changes in Net Assets For fiscal years ended June 30, 2006 and 2005

	GOVERN- MENTAL ACTIVITIES 2006	GOVERN- MENTAL ACTIVITIES 2005	BUSINESS- TYPE ACTIVITIES 2006	BUSINESS- TYPE ACTIVITIES 2005	TOTALS 2006	TOTALS 2005
Revenues						
Program revenue						
Charges for services	\$ 205,683	\$ 333,293	\$ 8,878,657	\$ 8,194,852	\$ 9,084,340	\$ 8,528,145
Operating grants and contributions	373,199	367,100			373,199	367,100
Capital grants and contributions		10,000				10,000
General revenue						
Property taxes	1,019,301	989,194	123,295	12,159	1,142,596	1,001,353
Federal grant	14,828			423,645	14,828	423,645
Sales tax	477,153	482,522			477,153	482,522
Miscellaneous	192,978	90,347	39,129	44,387	232,107	134,734
Restricted investment earnings			46,266	36,496	46,266	36,496
Unrestricted investment earnings	75,392	26,498	68,814	30,759	144,206	57,257
Transfers	<u>1,101,900</u>	<u>977,021</u>			<u>1,101,900</u>	<u>977,021</u>
Total Revenues	<u>3,460,434</u>	<u>3,275,975</u>	<u>9,156,161</u>	<u>8,742,298</u>	<u>12,616,595</u>	<u>12,018,273</u>
Program Expenses						
General government	509,045	561,690			509,045	561,690
Public safety	911,436	819,921			911,436	819,921
Public works	594,286	547,752	7,312,791	6,844,229	7,907,077	7,391,981
Community development & enrichment	213,742	215,319			213,742	215,319
Highways and streets	103,665	317,836			103,665	317,836
Culture and recreation	116,423	98,241			116,423	98,241
Other	305,990	346,532			305,990	346,532
Interest on long-term debt	155,442	159,068	240,469	144,697	395,911	303,765
Depreciation	259,939	248,324	499,445	499,967	759,384	748,291
Transfers			<u>1,026,900</u>	<u>927,021</u>	<u>1,026,900</u>	<u>927,021</u>
Total program expenses	3,169,968	3,314,683	9,079,605	8,415,914	12,249,573	11,730,597
Increase (decrease) in net assets	290,466	(38,708)	76,556	326,384	367,022	287,676
Net assets, July 1	3,474,021	3,493,959	9,785,991	8,465,075	13,260,012	11,959,034
Prior period adjustments	(24,531)	18,770	(38,087)	994,532	(62,618)	1,013,302
Net assets, June 30	<u>\$ 3,739,956</u>	<u>\$ 3,474,021</u>	<u>\$ 9,824,460</u>	<u>\$ 9,785,991</u>	<u>\$ 13,564,416</u>	<u>\$ 13,260,012</u>

Governmental Activities – Program revenues, which include user fees and charges and operating grants and contributions, represent 16% of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and State revenue sharing.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

Business-type Activities – Business-type activities increased the City of Eaton Rapids's net assets by \$76,556, all of which was in the Utility Fund. The City provides water to residents from a field of municipal water wells. Sewage treatment is provided through a City owned and operated treatment plant. Electrical power is purchased on a wholesale basis and sold at retail to residential, commercial and industrial customers within the City and on a limited basis, to customers outside the municipal boundaries of the City. Historically, revenues generated from electrical operations within the Utility Fund have served to supplement any shortfalls in the Water or Sewer operations. This continues to be the case in the current fiscal year. Rate studies have now been completed during this fiscal year and are being phased in for both Sewer and Water operations over the next two years with the goal being that these operations will be self supporting.

We have also completed an electrical rate study, however there have been no adjustment to the rates at this time, due in part to the impact such an increase would have on customers who have just experienced increases in both their water and sewer rates. The City entered into a new wholesale electrical contract in 2002 but did not adjust rates at that time to reflect the increase in the cost of purchasing wholesale electrical power. Since that time, the electrical industry has been restructured resulting in significant changes in the cost of moving power from one location to another via the electrical transmission grid. As a result, these costs get passed on to customers through a component of our current electrical rate structure which is referred to as the P.P.C.A.. This monthly adjustment allows the City to recover the increased costs associated with the both the wholesale power purchases as well as the higher transmission rates. It should be noted that the adequacy of electric department revenue is not only focus of the rate study, but rather the utilization of the P.P.C.A. as a safety valve to an extent not previously anticipated creates equity issue for customers who utilize significant amounts of power. In addition, assumptions built into the current electrical rates relating to fixed costs, funding for projected capital projects and City Charter requirements to maintain specific reserve margins also lead us to review current rates in order to insure the long term stability of this important City utility. Over the course of this next fiscal year it is anticipated that the electrical rate study will be revisited, updated and re-examined to determine if an adjustment in rates is warranted. Pricing trends across the mid-west do indicate that we could experience significantly higher wholesale energy costs when our current contract expires at the end of 2011, and discussions are underway to find ways to lessen this anticipated impact.

Financial Analysis of the City's Funds

Our analysis of the City's major funds begins on the pages following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing. The City of Eaton Rapids's major funds for 2005/2006 are the General Fund, the Major Streets Fund, the Local Streets Fund, the Parks and Recreation Fund, and the Building Authority Fund, and the Utility Fund.

The General Fund accounts for most of the City's governmental services. General administrative, police, and fire services account for over 42% of the total General Fund expenditures. The reduction in State shared revenues and investment income resulted in the City cutting expenses in preparation for this budget and throughout the year. While administration has stopped short of cutting personnel within the General Fund departments, a couple of positions have been allowed to remain vacant, including positions in the Public Works Department and general administrative positions. We continue to monitor the fees charged for many services, particularly those in the Police Department to keep current with surrounding departments and maximize revenue potential.

In reviewing activity in other Funds, we find that maintaining revenues to support the Building Department has resulted in fee increases this past year. A slump in new housing starts and renovations resulted in the fund balance of that operation being depleted and this year it was necessary for the General Fund to make up a shortfall for this fund. The Building Fund will be monitored closely. The Major and Local Street Funds continue to generate sufficient revenue to allow for the necessary street maintenance as well as on-going repair programs. Based on our population, we are also eligible and for monies under the states small urban cities program and as a result we have tapped into this funding source for street and bridge reconstruction projects most recently completing a replacement of the State Street bridge decking. We currently have plans under way to rebuild of a portion of State Street during the 2007/08 year now that the bulk of the recent building projects for the school system as well as housing projects in the area have been completed. While this funding source requires a local match, it still adds significantly to our ability to meet local needs. More long term, there is growing concern about the ability of the gas tax monies we received to adequately address out street infrastructure needs. On one hand, gas tax revenues are down because of higher oil prices while at the same time, higher oil prices drive up the cost of street repairs resulting in the ability to do less work with the same dollars. Many communities already need to supplement their street funds with other monies and long term, the funding mechanism for road maintenance will need to be addressed as the state highway system also funds their construction and maintenance from this same source of money.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (concluded)

In September of 2004, the City of Eaton Rapids sold general obligation bonds in the amount of \$ 9,545,000 that are currently being used for improvements for the City's wastewater plant and the collection system. The treatment plant and the mechanical equipment and systems needed to make it function properly had not seen any upgrades for twenty five years. In addition, new treatment processes that are more effective and less costly to operate are being incorporated into the upgraded facilities. The collection system of pipes that runs throughout the City is also in disrepair and as a result, ground water enters the collection system resulting in significantly higher volumes of water being treated at the wastewater plant than should normally be the case. The intent of this project, which is being implemented through the State Revolving Fund, is to address the majority of these deficiencies. To make the principal and interest payments on the bonds, voters of the City approved extra voted millage which began in December, 2004 to help pay for the costs of these improvements.

General Fund Budgetary Highlights

As of June 30, 2006, the amount an addition received was \$4,773,743. This is shown as additional debt for the City in the Utility Fund. Over the course of the year, the City monitors and amends the budget to take into account unanticipated events during the year. At year end, actual General Fund revenues were only \$56,899 more than the original and final budget. Expenditures were originally and amended for budgeting to exceed revenues and net operating transfers by \$5,900. The actual was \$29,430 expenditures over revenues.

Capital Assets and Debt Administration

At the end of the fiscal year 2006, the City had approximately \$21,516,035 invested in land, land improvements, buildings, water and sewer lines, vehicles and equipment, an increase of \$3,114,769. The two Utility fund projects represented most of increase in the capital assets for year ended June 30, 2006. The costs incurred during the year for the electrical substation and water well projects and the improvements to the waste water treatment plant was \$4,112,825. The Community Development Block Grant monies were used as a funding source for most of the cost of the electrical substation and water well with local matching funds coming from the Industrial Park Fund. The general obligation bonds sold in September, 2004, are helping to pay for the costs associated with the wastewater treatment plant. See Note 6 to the basic financial statements for additional information.

Debt reported in Note 7 to these financial statements is related to the construction and maintenance of the above-mentioned assets with the exception of CDGG loan.

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2006/2007 fiscal year included the growth of the property tax base due to incremental residential growth and some industrial expansion projects. We are also starting to see the some of the tax abatements granted to Meridian Magnesium Products expire and as they do, additional revenue should flow to the general fund. City continues to levy the maximum tax rate allowable under the City Charter and within the limitations imposed by both the Headley Amendment and Proposal A. Because there is uncertainty in the continued availability of State revenues as well as concerns about new and increased fees imposed by State departments on the various services they mandate for local governments, we continue to watch and monitor these areas very carefully. Efforts to convince state leaders to allow local governments the ability to develop new revenue sources to counteract the limiting factors that restrict the growth on existing property to the rate of inflation, have, to date, been unsuccessful. As a result, the City will continue to watch its budget closely.

Despite these concerns, the City continues to operate with an efficient and effective labor force. We expect to continue to provide annual wage increases despite the pressure of increases in medical and other personnel related costs. In addition, the funding of retiree health care is a growing concern and one that will need to be re-examined in the near future to ensure that we have adequately addressed and anticipated the future budgetary impact of providing this benefit.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current assets				
Cash	\$ 1,826,589	\$ 573,658	\$ 2,400,247	\$ 4,048,345
Investments	83,420		83,420	
Receivables				
Accounts (net of allowance for bad debt)		779,178	779,178	
Taxes	2,737		2,737	
Note receivable		959	959	
Due from				
Other funds	38,006	191,453	229,459	25,787
State	246,600	557,541	804,141	
Other	6,220		6,220	
Inventory		252,254	252,254	
Restricted assets				
Cash and investments		1,648,560	1,648,560	
Accrued interest receivable		31,696	31,696	
Customer meter deposits		120,660	120,660	
Noncurrent assets				
Investment in land				131,278
Note receivable		20,477	20,477	
Capital assets (net of accumulated depreciation)	<u>4,980,162</u>	<u>16,535,873</u>	<u>21,516,035</u>	<u>1,259,491</u>
 TOTAL ASSETS	 \$ <u>7,183,734</u>	 \$ <u>20,712,309</u>	 \$ <u>27,896,043</u>	 \$ <u>5,464,901</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current liabilities				
Payables				
Accounts	\$ 47,504	\$ 571,307	\$ 618,811	\$ 36,176
Payroll and payroll taxes	49,906	31,035	80,941	
Due to State		10,850	10,850	1,881,501
Due to other funds	53,855		53,855	21,967
Accrued sick and vacation pay	18,300	7,413	25,713	
Accrued interest	51,017	70,432	121,449	1,770
Deposits payable		120,660	120,660	
Bonds and notes payable	125,000	617,373	742,373	93,727
Noncurrent liabilities				
Bonds and notes payable	3,025,000	9,429,127	12,454,127	250,000
Accrued sick and vacation pay	73,196	29,652	102,848	
TOTAL LIABILITIES	<u>3,443,778</u>	<u>10,887,849</u>	<u>14,331,627</u>	<u>2,285,141</u>
NET ASSETS				
Invested in capital assets, net of related debt	17,902	6,489,373	6,507,275	385,193
Restricted for				
Economic development		429,507	429,507	
Bond/note retirement		964,345	964,345	
Electric utility		617,703	617,703	
Sewer utility		249,636	249,636	
Water utility		19,527	19,527	
TIFA I				454,994
TIFA II				246,324
State of Michigan				1,881,501
Cemetery perpetual care	134,728		134,728	
Debt service				390,855
Island project	21,178		21,178	
Fire department	175,680		175,680	
Unrestricted	<u>3,390,468</u>	<u>1,054,369</u>	<u>4,444,837</u>	<u>(179,107)</u>
TOTAL NET ASSETS	<u>3,739,956</u>	<u>9,824,460</u>	<u>13,564,416</u>	<u>3,179,760</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,183,734</u>	<u>\$ 20,712,309</u>	<u>\$ 27,896,043</u>	<u>\$ 5,464,901</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental activities			
General government	\$ 509,045	\$ 62,668	\$
Public safety	911,436	43,525	
Public works	594,286	26,957	
Community development and enrichment	213,742		
Highways and streets	103,665		387,027
Culture and recreation	116,423	11,614	1,000
Other	305,990	60,919	
Interest on long-term debt	155,442		
Depreciation	259,939		
Total Governmental Activities	<u>3,169,968</u>	<u>205,683</u>	<u>388,027</u>
Business-Type Activities			
Utility fund	<u>8,052,705</u>	<u>8,878,657</u>	
Total Primary Government	<u>\$ 11,222,673</u>	<u>\$ 9,084,340</u>	<u>\$ 388,027</u>
Component Units			
LDFA Island Industrial Park	\$ 63,671	\$	\$
TIFA I Downtown Development Authority	26,302		
TIFA II Enterprise Industrial Park			
Total Component Units	<u>\$ 89,973</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to financial statements.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	
\$	\$ (446,377)	\$	\$ (446,377)	\$
	(867,911)		(867,911)	
	(567,329)		(567,329)	
	(213,742)		(213,742)	
	283,362		283,362	
	(103,809)		(103,809)	
	(245,071)		(245,071)	
	(155,442)		(155,442)	
	(259,939)		(259,939)	
	(2,576,258)		(2,576,258)	
		825,952	825,952	
\$	(2,576,258)	825,952	(1,750,306)	
\$				(63,671)
				(26,302)
\$				(89,973)
General Revenues				
Property taxes levied for				
general purposes	1,019,301	123,295	1,142,596	626,763
State shared revenue	477,153		477,153	
Donation of land				100,000
Miscellaneous	192,978	39,129	232,107	5,021
Restricted investment earnings		46,266	46,266	
Unrestricted investment earnings	75,392	68,814	144,206	106,267
Transfers in (out)	1,101,900	(1,026,900)	75,000	(75,000)
Total General Revenues				
and Transfers	2,866,724	(749,396)	2,117,328	763,051
Change in net assets	290,466	76,556	367,022	673,078
NET ASSETS, JULY 1	3,474,021	9,785,991	13,260,012	4,008,352
PRIOR PERIOD ADJUSTMENTS	(24,531)	(38,087)	(62,618)	(1,501,670)
NET ASSETS, JUNE 30	\$ 3,739,956	\$ 9,824,460	\$ 13,564,416	\$ 3,179,760

CITY OF EATON RAPIDS, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL	MAJOR STREET	LOCAL STREET
ASSETS			
Cash	\$ 410,202	\$ 451,253	\$ 410,208
Investments			33,368
Taxes receivable	2,737		
Due from			
Other funds	35,296	468	
State	181,954	45,424	19,222
Other	6,220		
Lease receivable			
TOTAL ASSETS	<u>\$ 636,409</u>	<u>\$ 497,145</u>	<u>\$ 462,798</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Payables			
Accounts	\$ 41,740	\$ 4,020	\$ 1,444
Payroll and payroll taxes	42,899	797	160
Due to other funds			468
Deferred revenue			
TOTAL LIABILITIES	<u>84,639</u>	<u>4,817</u>	<u>2,072</u>
FUND BALANCE			
Reserved for Island project			
Reserved for cemetery perpetual care			
Reserved for fire department			
Unreserved, reported in			
General fund	551,770		
Special revenue funds		492,328	460,726
TOTAL FUND BALANCE	<u>551,770</u>	<u>492,328</u>	<u>460,726</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 636,409</u>	<u>\$ 497,145</u>	<u>\$ 462,798</u>

See accompanying notes to financial statements.

PARKS AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 34,082	\$	\$ 329,949	\$ 1,635,694
50,052			83,420
			2,737
2,242			38,006
			246,600
			6,220
	3,150,000		3,150,000
<u>86,376</u>	<u>3,150,000</u>	<u>329,949</u>	<u>5,162,677</u>
\$ 300	\$	\$	\$ 47,504
3,773		2,277	49,906
751	52,636		53,855
	3,150,000		3,150,000
<u>4,824</u>	<u>3,202,636</u>	<u>2,277</u>	<u>3,301,265</u>
21,178			21,178
		134,728	134,728
		175,680	175,680
			551,770
60,374	(52,636)	17,264	978,056
<u>81,552</u>	<u>(52,636)</u>	<u>327,672</u>	<u>1,861,412</u>
<u>86,376</u>	<u>3,150,000</u>	<u>329,949</u>	<u>5,162,677</u>

CITY OF EATON RAPIDS, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balance - governmental funds		\$	1,861,412
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets \$7,426,404 and the accumulated depreciation is \$2,556,273.			4,870,131
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.			300,926
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long-term liabilities at year-end consist of:			
Bonds and loan payable	\$	(3,150,000)	
Accrued interest		(51,017)	
Compensated absences		<u>(91,496)</u>	<u>(3,292,513)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		\$	<u><u>3,739,956</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL	MAJOR STREET	LOCAL STREET
REVENUES			
Taxes and special assessments	\$ 928,073	\$	\$
Licenses and permits	26,957		
Intergovernmental			
State	477,153	289,716	93,496
Federal	11,013		3,815
Charges for services	62,668		
Fines and forfeits	43,525		
Interest and rentals	38,467	13,685	13,927
Other revenues	125,418		
TOTAL REVENUES	<u>1,713,274</u>	<u>303,401</u>	<u>111,238</u>
EXPENDITURES			
General government	506,206		
Public safety	901,951		
Public works	590,816		
Culture and recreation			
Community development and enrichment	212,480		
Debt service			
Principal retirement			
Interest and fiscal charges			
Other	199,145		
Highways and streets		153,137	29,623
Capital outlay	85,266		
TOTAL EXPENDITURES	<u>2,495,864</u>	<u>153,137</u>	<u>29,623</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(782,590)</u>	<u>150,264</u>	<u>81,615</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,013,500		20,000
Operating transfers out	<u>(260,340)</u>	<u>(20,000)</u>	<u>(20,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>753,160</u>	<u>(20,000)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(29,430)</u>	130,264	81,615
FUND BALANCE, JULY 1	605,731	362,064	379,111
PRIOR PERIOD ADJUSTMENT	<u>(24,531)</u>		
FUND BALANCE, JUNE 30	\$ <u>551,770</u>	\$ <u>492,328</u>	\$ <u>460,726</u>

See accompanying notes to financial statements.

PARKS AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 91,228	\$	\$	\$ 1,019,301
			26,957
1,000			861,365
			14,828
11,614		60,919	135,201
			43,525
5,302		4,011	75,392
34,172		14,450	174,040
<u>143,316</u>		<u>79,380</u>	<u>2,350,609</u>
			506,206
		4,281	906,232
			590,816
115,792			115,792
			212,480
	125,000		125,000
	156,913		156,913
		92,692	291,837
			182,760
34,286	9,223		128,775
<u>150,078</u>	<u>291,136</u>	<u>96,973</u>	<u>3,216,811</u>
<u>(6,762)</u>	<u>(291,136)</u>	<u>(17,593)</u>	<u>(866,202)</u>
3,000	238,500	48,840	1,323,840
			(300,340)
<u>3,000</u>	<u>238,500</u>	<u>48,840</u>	<u>1,023,500</u>
(3,762)	(52,636)	31,247	157,298
85,314		296,425	1,728,645
			(24,531)
\$ <u>81,552</u>	\$ <u>(52,636)</u>	\$ <u>327,672</u>	\$ <u>1,861,412</u>

CITY OF EATON RAPIDS, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

Net changes in fund balances - total governmental funds	\$ 157,298
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets and work in progress	200,365
Less: current year depreciation	(218,161)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	1,471
Principal payments	125,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	(4,284)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.	28,777
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>290,466</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2006

BUSINESS-TYPE ACTIVITIES
ENTERPRISE FUNDS
UTILITY
FUNDGOVERNMENTAL
ACTIVITIES
INTERNAL
SERVICE FUNDS

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 573,658	\$ 190,895
Receivables		
Accounts	779,178	
Due from state	557,541	
Due from other funds	191,453	
Note receivable	959	
Inventory	252,254	
TOTAL CURRENT ASSETS	<u>2,355,043</u>	<u>190,895</u>

RESTRICTED ASSETS

Cash and investments	1,769,220	
Accrued interest	31,696	
TOTAL RESTRICTED ASSETS	<u>1,800,916</u>	

PROPERTY, PLANT AND EQUIPMENT

Vehicles		207,279
Work in progress	8,236,833	
Water department	6,911,177	
Electric department	6,576,733	
Sewage department	4,836,226	
	26,560,969	207,279
Less: accumulated depreciation	10,025,096	97,248
NET PROPERTY, PLANT AND EQUIPMENT	<u>16,535,873</u>	<u>110,031</u>

OTHER ASSETS

Note receivable - long-term	20,477	
-----------------------------	--------	--

TOTAL ASSETS

\$ <u>20,712,309</u>	\$ <u>300,926</u>
----------------------	-------------------

See accompanying notes to financial statements.

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable	\$ 560,000	\$
Notes payable	57,373	
Accounts payable	571,307	
Accrued interest payable	70,432	
Accrued sick and vacation	37,065	
Accrued payroll	31,035	
Due to state	10,850	
TOTAL CURRENT LIABILITIES	<u>1,338,062</u>	
LONG-TERM LIABILITIES		
Bonds payable	9,188,732	
Notes payable	240,395	
TOTAL LONG-TERM LIABILITIES	<u>9,429,127</u>	
RESTRICTED LIABILITIES		
Refundable meter deposits	120,660	
TOTAL LIABILITIES	<u>10,887,849</u>	
NET ASSETS AND CONTRIBUTED CAPITAL		
CONTRIBUTED CAPITAL (NET OF AMORTIZATION)		
Local	351,584	
Federal - net of amortization of \$2,113,080 in 2006	785,432	
State - net of amortization of \$205,864 in 2006	397,412	
TOTAL CONTRIBUTED CAPITAL	<u>1,534,428</u>	
NET ASSETS		
Reserved for		
Economic development	429,507	
Bond/note retirement	964,345	
Electric utility	617,703	
Sewer utility	249,636	
Water utility	19,527	
Unrestricted	6,009,314	300,926
TOTAL NET ASSETS	<u>8,290,032</u>	<u>300,926</u>
TOTAL NET ASSETS AND CONTRIBUTED CAPITAL	<u>9,824,460</u>	<u>300,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,712,309</u>	<u>\$ 300,926</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES
	UTILITY FUND	INTERNAL SERVICE FUNDS
OPERATING REVENUES		
Charges for services	\$ 8,878,657	\$
Fines and forfeitures	22,629	
Other revenue	16,501	659,605
TOTAL OPERATING REVENUES	<u>8,917,787</u>	<u>659,605</u>
OPERATING EXPENSES		
Personnel services	1,033,401	
Contractual services	138,635	
Supplies	44,429	
Materials	254,936	
Utilities	179,151	
Telephone	21,294	
Insurance	42,986	
Maintenance	5,040,624	10,263
Benefit payments	496,916	657,187
Other expense	60,420	
Depreciation	499,445	41,778
TOTAL OPERATING EXPENSES	<u>7,812,237</u>	<u>709,228</u>
OPERATING INCOME (LOSS)	<u>1,105,550</u>	<u>(49,623)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	123,295	
Interest earned	115,080	
Interest expense	(240,469)	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(2,094)</u>	
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,103,456	(49,623)
OPERATING TRANSFERS		
Operating transfers in (out)	<u>(1,026,900)</u>	<u>78,400</u>
NET INCOME	76,556	28,777
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018	
NET ASSETS, JULY 1	8,202,545	272,149
PRIOR PERIOD ADJUSTMENT	<u>(38,087)</u>	
NET ASSETS, JUNE 30	<u>\$ 8,290,032</u>	<u>\$ 300,926</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 8,836,742	\$
Cash received from other funds		641,600
Cash received from penalties	19,266	
Cash received from miscellaneous	16,501	18,005
Payment to suppliers	(6,394,064)	(667,450)
Payments to employees	<u>(1,039,280)</u>	<u></u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,439,165</u>	<u>(7,845)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from note receivable	936	
Interest income	<u>115,080</u>	<u></u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>116,016</u>	<u></u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating transfers in (out)	<u>(1,026,900)</u>	<u>78,400</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Increase in restricted assets	(14,982)	
Increase in restricted liabilities	3,770	
Decrease in long-term debt	(203,303)	
Bond proceeds	4,773,743	
Interest and fiscal charges	(200,285)	
Work in progress	(1,901,587)	
Purchase of capital assets	<u>(2,858,580)</u>	<u>(21,934)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(401,224)</u>	<u>(21,934)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	127,057	48,621
CASH AND CASH EQUIVALENTS, JULY 1	<u>446,601</u>	<u>142,274</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 573,658</u></u>	<u><u>\$ 190,895</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS - Concluded
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES <u>ENTERPRISE FUNDS</u> UTILITY FUND	GOVERNMENTAL <u>ACTIVITIES</u> INTERNAL SERVICE
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,105,550	\$ (49,623)
Prior period adjustment	(38,087)	
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	499,445	41,778
Changes in assets and liabilities		
Increase in accounts receivable	(59,826)	
Decrease in inventory	103,252	
Increase in accounts payable	(166,190)	
Increase in accrued payroll	(5,460)	
Decrease in accrued sick and vacation	(419)	
Increase in other liabilities	900	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ <u>1,439,165</u>	\$ <u>(7,845)</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	TRUST AND AGENCY FUND	AGENCY FUND TAX FUND	TOTAL
ASSETS			
Cash	\$ <u>448</u>	\$ <u>203,503</u>	\$ <u>203,951</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to local units	\$ 448	\$ 24,079	\$ 24,527
Due to other funds	<u> </u>	<u>179,424</u>	<u>179,424</u>
TOTAL LIABILITIES	\$ <u>448</u>	\$ <u>203,503</u>	\$ <u>203,951</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ <u>19,541</u>	\$ <u>175,680</u>	\$ <u>134,728</u>	\$ <u>329,949</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Payables				
Accrued payroll	\$ <u>2,277</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>2,277</u>
FUND BALANCE				
Reserved for cemetery perpetual care			134,728	134,728
Reserved for fire department		175,680		175,680
Unreserved	<u>17,264</u>	<u> </u>	<u> </u>	<u>17,264</u>
TOTAL FUND BALANCE	<u>17,264</u>	<u>175,680</u>	<u>134,728</u>	<u>327,672</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>19,541</u>	\$ <u>175,680</u>	\$ <u>134,728</u>	\$ <u>329,949</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Charges for services	\$ 60,919	\$	\$	\$ 60,919
Interest and rentals	386	3,625		4,011
Other revenues	<u>2,550</u>		<u>11,900</u>	<u>14,450</u>
TOTAL REVENUES	<u>63,855</u>	<u>3,625</u>	<u>11,900</u>	<u>79,380</u>
EXPENDITURES				
Public safety	4,281			4,281
Other	<u>92,395</u>		<u>297</u>	<u>92,692</u>
TOTAL EXPENDITURES	<u>96,676</u>		<u>297</u>	<u>96,973</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(32,821)</u>	<u>3,625</u>	<u>11,603</u>	<u>(17,593)</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>18,840</u>	<u>30,000</u>		<u>48,840</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(13,981)</u>	<u>33,625</u>	<u>11,603</u>	<u>31,247</u>
FUND BALANCE, JULY 1	<u>31,245</u>	<u>142,055</u>	<u>123,125</u>	<u>296,425</u>
FUND BALANCE, JUNE 30	<u>\$ 17,264</u>	<u>\$ 175,680</u>	<u>\$ 134,728</u>	<u>\$ 327,672</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2006

	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
ASSETS				
Cash	\$ 3,949,111	\$ 97,169	\$ 2,065	\$ 4,048,345
Due from other funds	23,545	2,242		25,787
Investment in land		131,278		131,278
Capital assets	776,048	239,184	244,259	1,259,491
TOTAL ASSETS	<u>\$ 4,748,704</u>	<u>\$ 469,873</u>	<u>\$ 246,324</u>	<u>\$ 5,464,901</u>
LIABILITIES				
Accounts payable	\$ 26,610	\$ 9,566	\$	\$ 36,176
Due to the State of Michigan	1,881,501			1,881,501
Accrued interest	1,770			1,770
Due to other funds	16,654	5,313		21,967
Long-term liabilities				
Portion due within one year	93,727			93,727
Portion due after one year	250,000			250,000
TOTAL LIABILITIES	<u>2,270,262</u>	<u>14,879</u>		<u>2,285,141</u>
NET ASSETS				
Reserved for TIFA I		454,994		454,994
Reserved for TIFA II			246,324	246,324
Reserved for State of Michigan	1,881,501			1,881,501
Reserved for debt service	390,855			390,855
Unreserved	206,086			206,086
TOTAL NET ASSETS	<u>2,478,442</u>	<u>454,994</u>	<u>246,324</u>	<u>3,179,760</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,748,704</u>	<u>\$ 469,873</u>	<u>\$ 246,324</u>	<u>\$ 5,464,901</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2006

	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Component Units			
LDFA Island Industrial Park	\$ 63,671	\$	\$
TIFA I Downtown Development Authority	26,302		
TIFA II Enterprise Industrial Park			
Total Component Units	<u>\$ 89,973</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
\$	\$ (63,671)	\$ (26,302)	\$	\$ (63,671) (26,302)
\$	(63,671)	(26,302)		(89,973)
General Revenues				
Property taxes	529,758	97,005		626,763
Miscellaneous	21	5,000		5,021
Donation of land		100,000		100,000
Unrestricted investment earnings	103,209	2,242	816	106,267
Transfers	(50,000)		(25,000)	(75,000)
Total General Revenues and Transfers	582,988	204,247	(24,184)	763,051
Change in Net Assets	519,317	177,945	(24,184)	673,078
NET ASSETS, JULY 1	3,460,795	277,049	270,508	4,008,352
PRIOR PERIOD ADJUSTMENT	(1,501,670)			(1,501,670)
NET ASSETS, JUNE 30	\$ 2,478,442	\$ 454,994	\$ 246,324	\$ 3,179,760

CITY OF EATON RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and streets, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general and administrative services.

The accounting policies of the City of Eaton Rapids conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Fiscal Year

In 2003, the City charter was amended to change the City's fiscal year to June 30.

B. Reporting Entity

All funds and account groups under direct control of the City of Eaton Rapids are included in this report. These funds and account groups are those which meet the criteria established by the Governmental Accounting Standards Board (GASB) 14, The Financial Reporting Entity and Statement on Michigan Governmental Accounting and Auditing No. 5.

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Eaton Rapids (the primary government) and its components units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

Discretely Presented Component Units

The TIFA I Downtown Development Authority, TIFA II Enterprise Industrial Park, and LDFA Island Industrial Park of the City of Eaton Rapids, entities legally separate from the City, are governed by a twelve member board appointed by the City Council. For financial reporting purposes, the TIFA I, TIFA II, and LDFA are reported in the component unit column in the combined financial statements. These units are reported in a separate column to emphasize that they are legally separate from the City.

Blended Component Units

The City of Eaton Rapids council established the City of Eaton Rapids Building Authority under Public Act 31 of Michigan. The three member Authority board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for the City of Eaton Rapids purpose.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Eaton Rapids and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Eaton Rapids is reported separately from certain legally separate component units for which the City of Eaton Rapids, the primary government, is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Eaton Rapids.

The City of Eaton Rapids reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

The Major Street Fund accounts for major street improvements and resurfacing projects.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

The Local Street Fund accounts for local street improvements and resurfacing projects.

The Parks and Recreation Fund accounts for the activities used to run and maintain the community center and parks throughout the City.

The 2006 Building Authority Bond Fund (blended component unit) is used to account for the resources accumulated and payments made for principal and interest payments on these bonds.

The City of Eaton Rapids reports the following major proprietary funds:

The Utility Fund accounts for the activities and operations of the electric plant, water and sewage treatment plant and the sewage pumping stations.

Additionally, the City of Eaton Rapids reports the following fund types:

Internal Service Funds are used to account for Motor Pool Services and Public Employee Benefits provided to other departments on a cost reimbursement basis.

The Cemetery Perpetual Care Fund is used to account for resources legally held in trust to be used for cemetery perpetual care. All resources of the fund, including any earnings on invested resources, may be used to support the organization's activities.

The Ted Oliver Memorial Trust Fund accumulates donations to be spent on future purchases of fire equipment.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Eaton Rapids has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Utility Fund and other functions and segments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Eaton Rapids policy to use restricted resources first. Unrestricted resources are used as they are needed.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

E. Receivables

Receivables have been recognized for all significant amounts due the City. Allowances have not been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Eaton Rapids as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Equipment	5-20 years
Vehicles	3-10 years
Utility systems	10-40 years
Streets	20-25 years
Bridges	20-25 years
Sidewalks	20-25 years

G. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

I. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

J. Restricted Assets

Certain proceeds of the Utility Fund, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

K. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

L. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Not later than the third Monday in June, the budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to make budgetary transfers between the line items of departments established through this budget, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgets for General, Special Revenue and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

The General Fund budget is adopted on an activity level basis, and the Special Revenue Funds budgets are adopted on a total fund level.

M. Investments

Investments are stated at cost, which is equal to market.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** — Concluded

N. Inventory

Inventory is valued at the lower of cost (FIFO) or market.

O. Fund Equity Reserves and Designations

Portions of fund equity are segregated for future use and are, therefore, not available for future appropriations or expenditures. Retained earnings and fund balance reserves represent these amounts which are legally, contractually, or otherwise segregated for future use.

Designations of unreserved fund balances in governmental funds indicate the City's tentative plans for use of financial resources in a future period.

NOTE 2: **ACCUMULATED VACATION AND SICK LEAVE**

Accrued vacation and sick leave is recorded as a governmental fund liability at June 30, 2006, to the extent that it is to be liquidated with expendable available financial resources within the current operating cycle.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of 3 days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

The accumulated vacation and sick leave balance as of June 30, 2006 was \$128,562.

NOTE 3: **COMMON CASH ACCOUNT**

Cash resources from individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. The equity in cash and investments of the various funds at June 30, 2006 is as follows:

FUND	COMMON CASH AND CASH EQUIVALENTS	INVESTMENTS CERTIFICATES OF DEPOSIT
General	\$ 410,202	\$
Major	451,253	33,368
Local	410,208	
Act 302	13,199	
Parks and recreation	34,082	50,052
Public improvement	175,680	
Building department	5,289	
Drug law enforcement	1,053	
Utility		
Unrestricted	573,658	
Restricted	120,660	1,648,560
Public employee benefit	1,197	
Motor vehicle pool	189,698	
Tax fund	203,503	
Cemetery perpetual care	134,728	
TIFA I	97,169	

NOTE 3: **COMMON CASH ACCOUNT** – Continued

FUND	COMMON CASH AND CASH EQUIVALENTS	INVESTMENTS CERTIFICATES OF DEPOSIT
TIFA II	\$ 2,065	\$
LDFA	3,949,111	
Trust and Agency	<u>448</u>	<u></u>
TOTAL	<u>\$ 6,773,203</u>	<u>\$ 1,731,980</u>
Financial statement presentation		
Governmental funds	\$ 1,826,589	\$ 83,420
Proprietary funds	573,658	
Fiduciary funds	203,951	
Component units	4,048,345	
Restricted cash		
- customer meter deposits	<u>120,660</u>	<u>1,648,560</u>
TOTAL	<u>\$ 6,773,203</u>	<u>\$ 1,731,980</u>

Cash and Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper within the three highest rate classifications by at least two rating services, repurchase agreements collateralized by U.S. Government securities, bankers acceptances and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

As of June 30, 2006, the carrying amount and bank balance for each type of deposit and investment account is as follows:

ACCOUNT TYPE	BOOK BALANCE	BANK BALANCE	FDIC INSURED
Cash deposits	\$ 6,772,428	\$ 6,833,699	\$ 200,000
Certificates of deposit	1,731,980	1,731,980	100,000
Petty cash	775		

The City's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the City. Category 1 includes deposits and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name.

At June 30, 2006, the City's investments were classified as follows:

Insured	\$ <u>100,000</u>
Uninsured and uncollateralized	\$ <u>1,631,980</u>

NOTE 3: **COMMON CASH ACCOUNT** – Concluded

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$6,633,699 of the government's bank balance of \$6,833,699 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 6,633,699

NOTE 4: **INTERFUND RECEIVABLES AND PAYABLES**

The following are the interfund receivables and payables at June 30, 2006:

FUND	INTERFUND RECEIVABLE	FUND	INTERFUND PAYABLE
Utility Fund	\$ <u>52,636</u>	Building Authority Fund	\$ <u>52,636</u>
Major Street Fund	<u>468</u>	Local Street Fund	<u>468</u>
General Fund	<u>751</u>	Park Fund	<u>751</u>
LDFA Fund	23,545		
DDA Fund	2,242		
Park Fund	2,242		
General Fund	34,545		
Utility Fund	<u>116,850</u>	Tax Fund	<u>179,424</u>
Subtotal	<u>179,424</u>	Subtotal	<u>179,424</u>
Utility Fund	<u>21,967</u>	DDA	5,313
		LDFA	<u>16,654</u>
Subtotal	<u>21,967</u>	Subtotal	<u>21,967</u>
TOTALS	\$ <u>255,246</u>	TOTALS	\$ <u>255,246</u>

All interfund loans were made for operating purposes.

NOTE 5: **PROPERTY TAXES**

Property taxes become an enforceable lien on the property as of July 1. Taxes are levied on July 1 and are payable by August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy 8.6029 mills for general governmental services. A total of 8.6029 mills were levied. The residents of the City have approved an additional .8601 mill for recreation. A total of 9.463 mill was levied. The total 2005 levy was for general operating purposes. The residents of the City have approved an additional .9400 mills for wastewater improvements.

NOTE 6: **CHANGES IN CAPITAL ASSETS**

A summary of changes in governmental capital assets including internal service fund assets are as follows:

	JULY 1, 2005	ADDITIONS	DELETIONS	JUNE 30, 2006
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 632,818	\$	\$	\$ 632,818
Work in process				
Infrastructure	<u>25,506</u>	<u>5,160</u>	<u>17,020</u>	<u>13,646</u>
Total capital assets not being depreciated	<u>658,324</u>	<u>5,160</u>	<u>17,020</u>	<u>646,464</u>
Capital assets being depreciated				
Buildings and improvements	5,027,693	34,985		5,062,678
Land improvements	668,382	23,512		691,894
Vehicles	417,291	21,934	21,943	417,282
Machinery and equipment	547,205	27,363		574,568
Books	115,714	20,660	11,045	125,329
Infrastructure	<u>9,763</u>	<u>105,705</u>		<u>115,468</u>
Total capital assets being depreciated	<u>6,786,048</u>	<u>234,159</u>	<u>32,988</u>	<u>6,987,219</u>
Less: Accumulated depreciation				
Buildings and improvements	1,686,615	92,840		1,779,455
Land improvements	125,792	22,834		148,626
Vehicles	254,881	65,467	21,943	298,405
Machinery and equipment	305,285	56,109		361,394
Books	51,394	22,038	11,045	62,387
Infrastructure	<u>2,603</u>	<u>651</u>		<u>3,254</u>
Total accumulated depreciation	<u>2,426,570</u>	<u>259,939</u>	<u>32,988</u>	<u>2,653,521</u>
Total capital assets being depreciated - net	<u>4,359,478</u>	<u>(25,780)</u>		<u>4,333,698</u>
NET CAPITAL ASSETS	<u>\$ 5,017,802</u>	<u>\$ (20,620)</u>	<u>\$ 17,020</u>	<u>\$ 4,980,162</u>

Depreciation expense for governmental activities was \$259,939 for the year ended June 30, 2006.

A summary of the asset activity for the governmental activity component units are as follows:

	JULY 1, 2005	ADDITIONS	DELETIONS	JUNE 30, 2006
COMPONENT UNITS				
Land	\$ <u>1,108,314</u>	\$ <u>151,177</u>	\$ _____	\$ <u>1,259,491</u>

NOTE 6: **CHANGES IN CAPITAL ASSETS** - Concluded

Capital assets for business-type activities have been summarized as follows:

	JULY 1, 2005	ADDITIONS	DELETIONS	JUNE 30, 2006
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Work in process				
Waste water treatment plant	\$ 4,124,008	\$ 4,112,825	\$	\$ 8,236,833
Electrical substation and waterwell	<u>2,211,238</u>	<u> </u>	<u>2,211,238</u>	<u> </u>
Total capital assets not being depreciated	<u>6,335,246</u>	<u>4,112,825</u>	<u>2,211,238</u>	<u>8,236,833</u>
Capital assets being depreciated				
Water	5,259,067	1,652,110		6,911,177
Electric	5,398,253	1,178,480		6,576,733
Sewage	<u>4,808,236</u>	<u>27,990</u>	<u> </u>	<u>4,836,226</u>
Total capital assets being depreciated	<u>15,465,556</u>	<u>2,858,580</u>	<u> </u>	<u>18,324,136</u>
Less: Accumulated depreciation				
Water	2,486,051	145,632		2,631,683
Electric	3,268,012	220,201		3,488,213
Sewage	<u>3,771,589</u>	<u>133,611</u>	<u> </u>	<u>3,905,200</u>
Total accumulated depreciation	<u>9,525,652</u>	<u>499,444</u>	<u> </u>	<u>10,025,096</u>
Total capital assets being depreciated	<u>5,939,904</u>	<u>2,359,136</u>	<u> </u>	<u>8,299,040</u>
NET CAPITAL ASSETS	<u>\$ 12,275,150</u>	<u>\$ 6,471,961</u>	<u>\$ 2,211,238</u>	<u>\$ 16,535,873</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Water	\$ 145,632
Electric	220,201
Sewage	<u>133,612</u>
	<u>\$ 499,445</u>

NOTE 7: **LONG-TERM DEBT OBLIGATIONS**

The changes in long-term debt obligations for the City of Eaton Rapids primary government and component units for the year ended June 30, 2006 are as follows:

	BALANCE, JULY 1, 2005	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2006	DUE WITHIN ONE YEAR
Governmental Activities -				
Primary Government				
\$3,650,000 Building Authority Bonds Series 2006 due in annual installments of \$125,000 to \$275,000 through March, 2022 with interest ranging from 3.50% to 5.20% per annum. The debt requirements will be paid with general operating funds.	\$ <u>3,275,000</u>	\$ (<u>125,000</u>)	3,150,000	\$ <u>125,000</u>
Less: amounts payable within one year			<u>125,000</u>	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT			<u>\$ 3,025,000</u>	
Component Units				
\$975,000 1992 Local Development Finance Authority Bonds due in annual installments of \$75,000 to \$100,000 through December 1, 2009; interest at 6.40% to 6.90%.	\$ 400,000	\$ (75,000)	\$ 325,000	\$ 75,000
\$250,000 1993 CDBG Loan to Michigan Department of Commerce. The loan is due in monthly installments of \$12,414 through February, 2007; interest at 3.00%.	<u>46,666</u>	(<u>27,939</u>)	<u>18,727</u>	<u>18,727</u>
TOTAL COMPONENT UNITS	<u>\$ 446,666</u>	<u>\$ (102,939)</u>	343,727	<u>\$ 93,727</u>
Less: amounts payable within on year			(<u>93,727</u>)	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES COMPONENT UNITS			<u>\$ 250,000</u>	

NOTE 7: LONG-TERM DEBT OBLIGATIONS – Continued

	BALANCE, JULY 1, 2005	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2006	DUE WITHIN ONE YEAR
Business-Type Activities				
\$1,475,000 Water Supply System Bonds, Series 1991 due in annual installments of \$85,000 to \$130,000 through November 1, 2011; interest at 6.25% to 6.50%.	\$ 750,000	\$(85,000)	\$ 665,000	\$ 95,000
\$1,745,000 Drinking Water Bonds due in annual installments of \$65,000 to \$84,806; interest at 2.50%. The bonds are due in full in April, 2020.	1,164,806	(65,000)	1,099,806	70,000
\$358,000 Note payable to Steve Mair for purchase of generator. The note is due in monthly installments of \$4,250 with interest of 7.00% to 8.50%. The note is due in November, 2008.	158,919	(40,447)	118,472	43,859
\$200,000 Community Development Block Grant due in quarterly installments of \$5,566 including interest at 5% per annum. The note is due in 2017.	192,152	(12,856)	179,296	13,514
\$9,545,000 WWTP Improvement Bonds due in annual installments of \$395,000 – \$450,000 beginning in 2007; interest at 2.125%. The proceeds of these bonds are on a reimbursement basis. The Wastewater Treatment Plant improvements are still in progress. The total of bond proceeds for the year ended June 30, 2006 was \$3,210,183.	<u>3,210,183</u>	<u>4,773,743</u>	<u>7,983,926</u>	<u>395,000</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 5,476,060</u>	<u>\$ 4,570,440</u>	10,046,500	<u>\$ 617,373</u>
Less: amounts payable within one year			<u>617,373</u>	
TOTAL LONG-TERM OBLIGATIONS BUSINESS-TYPE ACTIVITIES			<u>\$ 9,429,127</u>	

NOTE 7: **LONG-TERM DEBT OBLIGATIONS** - Concluded

Annual debt service requirements to maturity for primary government obligations are as follows:

YEAR ENDING JUNE 30,	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTALS	PRINCIPAL	INTEREST	TOTALS
2007	\$ 125,000	\$ 151,788	\$ 276,788	\$ 617,373	\$ 346,972	\$ 964,345
2008	150,000	147,100	297,100	626,470	265,710	892,180
2009	150,000	141,100	291,100	622,027	245,990	868,017
2010	150,000	134,800	284,800	610,696	226,240	836,936
2011	150,000	128,275	278,275	631,500	207,337	838,837
2012-2016	925,000	525,288	1,450,288	2,871,057	798,967	3,670,024
2017-2021	1,225,000	267,437	1,492,437	2,858,197	477,812	3,336,009
2022-2026	<u>275,000</u>	<u>14,300</u>	<u>289,300</u>	<u>2,770,000</u>	<u>179,247</u>	<u>2,949,247</u>
	<u>\$ 3,150,000</u>	<u>\$ 1,510,088</u>	<u>\$ 4,660,088</u>	<u>\$ 11,607,320</u>	<u>\$ 2,748,275</u>	<u>\$ 14,355,595</u>

Annual debt service requirements to maturity for component unit long-term obligations are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTALS
2007	\$ 93,727	\$ 19,715	\$ 113,442
2008	75,000	14,513	89,513
2009	75,000	9,450	84,450
2010	<u>100,000</u>	<u>3,450</u>	<u>103,450</u>
	<u>\$ 343,727</u>	<u>\$ 47,128</u>	<u>\$ 390,855</u>

NOTE 8: **DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945 as amended. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units, and requires a contribution from the employees of 0 - 10 percent of gross wages.

Annual Pension Cost

For the pension year ended December 31, 2005, the City's annual pension cost of \$225,067 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years. This information from MERS is based on calendar year rather than the City's fiscal year ended.

NOTE 8: **DEFINED BENEFIT PENSION PLAN** - Concluded

	MERS FISCAL YEAR ENDED DECEMBER 31,			
	2002	2003	2004	2005
Annual pension cost	\$ 211,580	\$ 215,878	\$ 225,067	\$ 258,615
Percentage of APC contributed	100%	100%	100%	
Net pension obligation				
Actuarial value of assets	3,496,318	4,007,573	4,475,760	4,924,974
Actuarial Accrued Liability	5,588,766	6,420,544	7,345,974	8,068,776
Unfunded AAL	2,092,448	2,412,971	2,870,214	3,143,802
Funded ratio	63%	62%	61%	61%
Covered payroll	2,141,032	2,043,337	2,063,018	2,181,467
UALL as a percentage of covered payroll	102%	118%	139%	144%

NOTE 9: **OPERATING TRANSFERS**

The following are the operating transfers for the year ending June 30, 2006:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General	\$ <u>50,000</u>	LDFA	\$ <u>50,000</u>
General	<u>25,000</u>	TIFA II	<u>25,000</u>
General	<u>938,500</u>	Utility	<u>938,500</u>
Parks and recreation	<u>3,000</u>	General	<u>3,000</u>
Building department	<u>18,840</u>	General	<u>18,840</u>
Local Street	<u>20,000</u>	Major Street	<u>20,000</u>
Public Improvement	<u>30,000</u>	Utility	<u>30,000</u>
Motor Pool	78,400	General	20,000
		Utility	<u>58,400</u>
Subtotal	<u>78,400</u>	Subtotal	<u>78,400</u>
Debt Service -		Utility	
Building Authority	238,500	General	218,500
		Local Street	<u>20,000</u>
Subtotal	<u>238,500</u>	Subtotal	<u>238,500</u>
TOTAL	\$ <u>1,402,240</u>	TOTAL	\$ <u>1,402,240</u>

All interfund transfers were made for operating purposes.

NOTE 10: **SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS**

	UTILITY FUND	INTERNAL SERVICE FUND
Operating revenues	\$ 8,917,787	\$ 659,605
Depreciation	499,445	41,778
Operating income (loss)	1,105,550	(49,623)
Operating transfers in (out)	(1,026,900)	78,400
Net income	76,556	28,777
Property, plant and equipment		
Additions	2,858,580	21,934
Net working capital	1,016,981	190,895
Total assets	20,712,309	300,926
Total equity	9,824,460	300,926

NOTE 11: **AMORTIZATION OF CONTRIBUTED CAPITAL**

The City received grants from the state and federal government in 1976-1979 for the purpose of constructing and equipping a waste water treatment plant. The contributions are being amortized over the useful lives of the assets acquired. The City received grants from the state and federal government in 1993 and 1994 for the purpose of constructing water, electric and waste water systems in the Island City Industrial Park. The contributions are being amortized over the useful lives of the assets acquired. Contributed Capital has been combined with Net Assets for the government-wide statements.

NOTE 12: **CONTINGENCIES AND LITIGATION**

As of June 30, 2006, there were several lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

NOTE 13: **EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS**

P.A. 621 of 1978 provides that Cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the City Council.

For the year ended June 30, 2006, the City of Eaton Rapids had the following funds which had expenditures which exceeded the budgets adopted by the City Council:

FUND/FUND TYPE	BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
Administration			
General election	\$ 4,000	\$ 4,060	\$(60)
Assessor	89,650	89,783	(133)
Attorney	127,200	156,537	(29,337)
Clerk/Treasurer	87,000	87,935	(935)
General - allocated	91,100	104,595	(13,495)
Police	818,430	827,379	(8,949)
Public works	579,000	590,816	(11,816)
Storm sewers	204,500	206,656	(2,156)
Community development	3,325	5,824	(2,499)
Capital outlay	70,600	85,266	(14,666)
SPECIAL REVENUE FUND			
Act 302	4,000	4,281	(281)
Parks and recreation	147,500	150,078	(2,578)

NOTE 14: **FUND EQUITY RESERVES**

As disclosed in Note 1-O, portions of fund equity are segregated for future use and are, therefore, not available for future appropriation or expenditure. These fund equity reserves as of June 30, 2006 are as follows:

NET ASSETS:

GOVERNMENTAL

Reserved for Fire Department Equipment

This amount reflects the fund balance to be used for fire department equipment.

Reserved for Island Project

This amount represents monies that are to be used for restoration of the City of Eaton Rapids Island Park.

Reserved for Building Authority

This amount reflects the fund balance reserved for the Public Safety Building and City Hall Building.

Reserved for Perpetual Care

This amount reflects the portion of retained earnings to be used for the Cemetery Perpetual Care.

Reserved for Bond/Note Retirement

This amount reflects the City's savings due to the wholesale interruptible rate savings. These monies are to be used for debt retirement of the Water Supply System Bonds.

Reserved for Water

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the water department.

Reserved for Sewer

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the sewer department.

Reserved for Electric

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the Electric Department.

Reserved for Economic Development

These amounts reflect the portion of retained earnings to be used for future insurance in investment of Magnesium Products.

COMPONENT UNITS

Reserved for TIFA I

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

NOTE 14: **FUND EQUITY RESERVES – Concluded**

NET ASSETS: - Concluded:

COMPONENT UNITS - Concluded

Reserved for TIFA II

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

Reserved for the State of Michigan

This amount reflects monies reserved to pay the State of Michigan for LDFA property taxes.

Reserved for Debt Service

All Debt Service Funds' fund balances are designated by City management to be utilized for future debt service expenditures.

NOTE 15: **WORKERS' COMPENSATION INSURANCE**

The City belongs to the Michigan Municipal Liability and Property Pool for disability worker's compensation insurance.

The Michigan Municipal Liability and Property Pool was established in 1982 under Public Act 138 of 1982, as amended by Public Act 36 of 1988, to develop and administer a group program of liability and property self insurance for Michigan municipalities. The objectives of the Pool are to establish and administer a municipal risk management service, to reduce the incidence of property and casualty losses occurring in the operation of local governmental functions, and to defend members of the Pool against stated liability or loss.

Member contributions are combined to provide each member with coverage for liability and property claims. Any funds not needed to pay claims and maintain prudent reserves will be available for distribution to the members or credit toward future member contributions.

NOTE 16: **FUND BALANCE**

The City had one fund, the Building Authority Fund, in a deficit position as of June 30, 2006.

NOTE 17: **PRIOR PERIOD ADJUSTMENT**

The following prior period adjustment was made in the General fund:

Correct prior year delinquent taxes receivable	\$(<u>24,531</u>)
--	---------------------

The following prior period adjustment was made in the Utility fund:

To write off past due sewer surcharges	\$(<u>38,087</u>)
--	---------------------

The following prior period adjustment was made in the Local Development Finance Authority Fund (LDFA):

To record prior year's LDFA capture of taxes due to the State of Michigan	\$(<u>1,501,670</u>)
---	------------------------

NOTE 18: LONG-TERM LEASE

The Building Authority is a party to a long-term lease agreement for rental of the public safety building to the City of Eaton Rapids, Michigan. The lease stipulates that fixed annual rentals will be paid to the Authority by the City of Eaton Rapids, Michigan and such rentals are pledged exclusively for payment of principal and interest on the Building Authority bonds. In addition, the City pledges its unlimited tax, full faith, and credit as security under the lease. Fixed annual rentals will cease after all bonds have been retired and advance rentals repaid on March 1, 2022. The lease agreement provides, further, that after all bonds are retired and advance rentals repaid, title to the land and buildings will vest to the City of Eaton Rapids.

The long-term lease has been accounted for as a capital lease in the debt service fund. The net leasehold receivable represents the present value of future minimum lease payments due from the City. Revenue represented by the non-current portion of the receivable is deferred until it becomes a current receivable. Future minimum lease payments scheduled to be received by the Authority from the City (including unearned finance income of \$1,510,089 are as follows:

YEAR	AMOUNT
2007	\$ 276,788
2008	297,100
2009	291,100
2010	284,800
2011	278,275
2012	296,600
2013	288,725
2014	280,588
Thereafter	<u>2,366,113</u>
	<u>\$ 4,660,089</u>

NOTE 19: DUE TO THE STATE-LOCAL FINANCE DEVELOPMENT AUTHORITY (LDFA)

As of June 30, 2006, the City has recorded a liability due to the State of Michigan for excess capture of LDFA property taxes over the obligated debt for this district. The actual amount is not known as of the date of this report. The estimated amount due at June 30, 2006 is \$1,881,501. The actual amount is not expected to increase over the estimated amount accrued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes				
Property taxes	\$ 913,550	\$ 914,300	\$ 922,136	\$ 7,836
Penalties and interest			5,166	5,166
Trailer fee	1,000	1,000	765	(236)
Total Taxes	<u>914,550</u>	<u>915,300</u>	<u>928,066</u>	<u>12,766</u>
Licenses and Permits				
Licenses	270	270	245	(25)
Franchise fees	25,000	26,700	26,712	12
Total Licenses and Permits	<u>25,270</u>	<u>26,970</u>	<u>26,957</u>	<u>(13)</u>
Intergovernmental				
Federal grant			11,013	11,013
Sales tax	463,300	463,300	477,153	13,853
Total Intergovernmental	<u>463,300</u>	<u>463,300</u>	<u>488,166</u>	<u>24,866</u>
Charges for Services				
Administrative fees	58,750	66,250	60,166	(6,084)
Video fees	3,000	1,950	1,964	14
Total Charges for Services	<u>61,750</u>	<u>68,200</u>	<u>62,130</u>	<u>(6,070)</u>
Reimbursements		535	538	3
Fines and Forfeits	35,500	35,665	43,526	7,861
Other Revenues				
Interest on investments	15,000	16,372	19,888	3,516
Rentals	28,530	28,130	18,579	(9,551)
Sales	28,000	47,923	49,283	1,360
Miscellaneous	33,300	53,980	76,135	22,155
Total Other Revenues	<u>104,830</u>	<u>146,405</u>	<u>163,885</u>	<u>17,480</u>
TOTAL REVENUES	<u>1,605,200</u>	<u>1,656,375</u>	<u>1,713,267</u>	<u>56,892</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Continued

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
EXPENDITURES				
General Government				
City Council	\$ 30,425	\$ 29,325	\$ 29,238	\$ 87
City Manager	1,500	1,530	1,526	4
General election	800	4,000	4,060	(60)
Assessor	85,800	89,650	89,784	(134)
Attorney	80,000	127,200	156,537	(29,337)
Clerk-Treasurer	95,150	87,000	87,935	(935)
Board of review	550	600	592	8
Buildings and grounds	12,000	18,025	18,004	21
Planning commission	2,380	3,180	3,179	1
Zoning board of appeals	600	600	586	14
Senior citizens	6,000	6,000	6,000	
City election	4,300	4,300	4,170	130
General - allocated	91,100	91,100	104,594	(13,494)
Total General Government	<u>410,605</u>	<u>462,510</u>	<u>506,204</u>	<u>(43,694)</u>
Public Safety				
Police	760,225	818,430	827,380	(8,950)
Fire	76,335	75,000	74,570	430
Total Public Safety	<u>836,560</u>	<u>893,430</u>	<u>901,950</u>	<u>(8,520)</u>
Public Works				
Public services	<u>510,760</u>	<u>579,000</u>	<u>590,814</u>	<u>(11,814)</u>
Community Development and Enrichment				
Library	203,750	204,500	206,657	(2,157)
Other	5,500	3,325	5,824	(2,499)
Total Community Development and Enrichment	<u>209,250</u>	<u>207,825</u>	<u>212,481</u>	<u>(4,656)</u>
Other Functions				
Cemetery	159,465	173,300	171,171	2,129
Storm sewers	19,340	28,750	27,971	779
Ambulance	10	10		10
Capital outlay	77,100	70,600	85,267	(14,667)
Contingencies	10	10		10
Total Other Functions	<u>255,925</u>	<u>272,670</u>	<u>284,409</u>	<u>(11,739)</u>
TOTAL EXPENDITURES	<u>2,223,100</u>	<u>2,415,435</u>	<u>2,495,858</u>	<u>(80,423)</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Concluded

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
DEFICIENCY OF REVENUES OVER EXPENDITURES	\$ <u>(617,900)</u>	\$ <u>(759,060)</u>	\$ <u>(782,591)</u>	\$ <u>(23,531)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	853,500	1,013,500	1,013,500	
Operating transfers out	<u>(241,500)</u>	<u>(260,340)</u>	<u>(260,340)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>612,000</u>	<u>753,160</u>	<u>753,160</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(5,900)	(5,900)	(29,431)	(23,531)
FUND BALANCE, JULY 1	605,731	605,731	605,731	
PRIOR PERIOD ADJUSTMENT			<u>(24,531)</u>	<u>(24,531)</u>
FUND BALANCE, JUNE 30	\$ <u><u>599,831</u></u>	\$ <u><u>599,831</u></u>	\$ <u><u>551,769</u></u>	\$ <u><u>(48,062)</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

MAJOR STREET FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
State grants	\$ 237,700	\$ 237,700	\$ 289,716	\$ 52,016
Interest on investments			13,685	13,685
TOTAL REVENUES	<u>237,700</u>	<u>237,700</u>	<u>303,401</u>	<u>65,701</u>
EXPENDITURES				
Highways and streets	<u>217,700</u>	<u>217,700</u>	<u>153,137</u>	<u>64,563</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>20,000</u>	<u>20,000</u>	<u>150,264</u>	<u>130,264</u>
OTHER FINANCING USES				
Operating transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			130,264	130,264
FUND BALANCE, JULY 1	<u>362,064</u>	<u>362,064</u>	<u>362,064</u>	
FUND BALANCE, JUNE 30	<u><u>\$ 362,064</u></u>	<u><u>\$ 362,064</u></u>	<u><u>\$ 492,328</u></u>	<u><u>\$ 130,264</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

LOCAL STREET FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
REVENUES				
State grants	\$ 89,500	\$ 89,500	\$ 93,497	\$ 3,997
Federal grants			3,815	3,815
Interest on investments	<u>3,000</u>	<u>3,000</u>	<u>13,927</u>	<u>10,927</u>
TOTAL REVENUES	<u>92,500</u>	<u>92,500</u>	<u>111,239</u>	<u>18,739</u>
EXPENDITURES				
Highways and streets	<u>92,400</u>	<u>92,400</u>	<u>29,624</u>	<u>62,776</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>100</u>	<u>100</u>	<u>81,615</u>	<u>81,515</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	20,000	20,000	20,000	
Operating transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	
TOTAL OTHER FINANCING SOURCES (USES)				
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	100	100	81,615	81,515
FUND BALANCE, JULY 1	<u>379,111</u>	<u>379,111</u>	<u>379,111</u>	
FUND BALANCE, JUNE 30	<u>\$ 379,211</u>	<u>\$ 379,211</u>	<u>\$ 460,726</u>	<u>\$ 81,515</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

PARKS AND RECREATION FUND

FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes	\$ 90,300	\$ 90,300	\$ 91,228	\$ 928
Intergovernmental - state			1,000	1,000
Charges for services	5,500	10,500	11,614	1,114
Interest and rent	1,500	1,500	5,302	3,802
Other revenues	2,000	27,200	34,170	6,970
TOTAL REVENUES	<u>99,300</u>	<u>129,500</u>	<u>143,315</u>	<u>13,815</u>
EXPENDITURES				
Culture and recreation	84,800	98,200	115,790	(17,590)
Capital outlay	32,500	49,300	34,286	15,014
TOTAL EXPENDITURES	<u>117,300</u>	<u>147,500</u>	<u>150,077</u>	<u>(2,577)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(18,000)</u>	<u>(18,000)</u>	<u>(6,762)</u>	<u>11,238</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(15,000)</u>	<u>(15,000)</u>	<u>(3,762)</u>	<u>11,238</u>
FUND BALANCE, JULY 1	<u>85,314</u>	<u>85,314</u>	<u>85,314</u>	
FUND BALANCE, JUNE 30	<u><u>\$ 70,314</u></u>	<u><u>\$ 70,314</u></u>	<u><u>\$ 81,552</u></u>	<u><u>\$ 11,238</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BLENDED COMPONENT UNIT - BUILDING AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES	\$ _____	\$ _____	\$ _____	\$ _____
EXPENDITURES				
Note principal	125,000	125,000	125,000	
Note interest and fees	175,400	175,400	156,913	18,488
Capital outlay	45,000	45,000	9,223	35,777
TOTAL EXPENDITURES	<u>345,400</u>	<u>345,400</u>	<u>291,135</u>	<u>54,265</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(345,400)</u>	<u>(345,400)</u>	<u>(291,135)</u>	<u>(54,265)</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>238,500</u>	<u>238,500</u>	<u>238,500</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(106,900)</u>	<u>(106,900)</u>	<u>(52,635)</u>	<u>(54,265)</u>
FUND BALANCE, JULY 1	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, JUNE 30	<u>\$ (106,900)</u>	<u>\$ (106,900)</u>	<u>\$ (52,635)</u>	<u>\$ (54,265)</u>

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, building safety and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

BALANCE SHEET

JUNE 30, 2006

ASSETS

Imprest cash	\$	325
Cash and cash equivalents		409,877
Accounts receivable - other		6,220
Taxes receivable		2,737
Due from other funds		35,296
Due from state		<u>181,954</u>
TOTAL ASSETS	\$	<u><u>636,409</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	41,740
Accrued payroll and payroll taxes		<u>42,899</u>
TOTAL LIABILITIES		<u>84,640</u>

FUND BALANCE

Unreserved and undesignated		<u>551,769</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>636,409</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 915,300	\$ 928,066	\$ 12,766
Licenses and permits	26,970	26,957	(13)
Intergovernmental			
State	463,300	477,153	13,853
Federal		11,013	11,013
Charges for services	68,200	62,130	(6,070)
Reimbursements	535	538	3
Fines and forfeitures	35,665	43,526	7,861
Interest	16,372	19,888	3,516
Rentals	28,130	18,579	(9,551)
Sales	47,923	49,283	1,360
Other	53,980	76,135	22,155
TOTAL REVENUES	1,656,375	1,713,267	56,892
EXPENDITURES	2,415,435	2,495,858	(80,423)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(759,060)	(782,591)	(23,531)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,013,500	1,013,500	
Operating transfers out	(260,340)	(260,340)	
TOTAL OTHER FINANCING SOURCES (USES)	753,160	753,160	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(5,900)	(29,431)	(23,531)
FUND BALANCE, JULY 1	605,731	605,731	
PRIOR PERIOD ADJUSTMENT		(24,531)	(24,531)
FUND BALANCE, JUNE 30	\$ 599,831	\$ 551,769	\$ (48,062)

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

STATEMENT OF EXPENDITURES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

EXPENDITURES	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Administration			
City Council	\$ 29,325	\$ 29,238	\$ 87
City Manager	1,530	1,526	4
General election	4,000	4,060	(60)
Assessor	89,650	89,784	(134)
Attorney	127,200	156,537	(29,337)
Clerk - Treasurer	87,000	87,935	(935)
Board of review	600	592	8
Building and grounds	18,025	18,004	21
Planning commission	3,180	3,179	1
Zoning board of appeals	600	586	14
Senior citizens	6,000	6,000	
City election	4,300	4,170	130
General - unallocated	91,100	104,594	(13,494)
Police	818,430	827,380	(8,950)
Cemetery	173,300	171,171	2,129
Fire	75,000	74,570	430
Public works	579,000	590,814	(11,814)
Storm sewers	28,750	27,971	779
Library	204,500	206,657	(2,157)
Community development	3,325	5,824	(2,499)
Ambulance	10		10
Capital outlay	70,600	85,267	(14,667)
Contingencies	10		10
TOTAL EXPENDITURES	\$ <u>2,415,435</u>	\$ <u>2,495,858</u>	\$ <u>(80,423)</u>

NON-MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The City's non-major Special Revenue Funds are the Act 302 Training, Building Department, and Drug Law Enforcement Fund.

CITY OF EATON RAPIDS, MICHIGAN
 COMBINING BALANCE SHEET
 NON- MAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	TOTALS
ASSETS				
Cash and cash equivalents	\$ <u>13,199</u>	\$ <u>5,289</u>	\$ <u>1,053</u>	\$ <u>19,541</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accrued payroll and taxes	\$ _____	\$ <u>2,276</u>	\$ _____	\$ <u>2,276</u>
FUND BALANCE				
Unreserved and undesignated	<u>13,199</u>	<u>3,012</u>	<u>1,053</u>	<u>17,264</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>13,199</u>	\$ <u>5,288</u>	\$ <u>1,053</u>	\$ <u>19,540</u>

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	TOTALS
REVENUES				
Charges for services	\$	\$ 60,919	\$	\$ 60,919
Interest	348		39	387
Other revenue	<u>2,343</u>	<u></u>	<u>206</u>	<u>2,549</u>
TOTAL REVENUES	<u>2,691</u>	<u>60,919</u>	<u>246</u>	<u>63,855</u>
EXPENDITURES				
Community development	4,281			4,281
Other	<u></u>	<u>91,126</u>	<u>1,269</u>	<u>92,395</u>
TOTAL EXPENDITURES	<u>4,281</u>	<u>91,126</u>	<u>1,269</u>	<u>96,676</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES BEFORE OPERATING TRANSFERS	(1,591)	(30,207)	(1,023)	(32,821)
OPERATING TRANSFER IN	<u></u>	<u>18,840</u>	<u></u>	<u>18,840</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,591)	(11,367)	(1,023)	(13,981)
FUND BALANCE, JULY 1	<u>14,790</u>	<u>14,379</u>	<u>2,076</u>	<u>31,245</u>
FUND BALANCE, JUNE 30	\$ <u><u>13,199</u></u>	\$ <u><u>3,012</u></u>	\$ <u><u>1,053</u></u>	\$ <u><u>17,264</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ACT 302 TRAINING
FOR THE YEAR ENDED JUNE 30, 2005

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest	\$ 100	\$ 348	\$ 248
Other revenue	<u>700</u>	<u>2,343</u>	<u>1,643</u>
TOTAL REVENUES	<u>800</u>	<u>2,691</u>	<u>1,891</u>
EXPENDITURES			
Community development	<u>4,000</u>	<u>4,281</u>	<u>(281)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,200)	(1,591)	1,609
FUND BALANCE, JULY 1	<u>14,790</u>	<u>14,790</u>	<u></u>
FUND BALANCE, JUNE 30	<u><u>\$ 11,590</u></u>	<u><u>\$ 13,199</u></u>	<u><u>\$ 1,609</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2006

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for services	\$ <u>60,100</u>	\$ <u>60,919</u>	\$ <u>819</u>
EXPENDITURES			
Other	<u>91,440</u>	<u>91,126</u>	<u>314</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OPERATING TRANSFERS	(31,340)	(30,207)	1,133
OPERATING TRANSFER IN	<u>18,840</u>	<u>18,840</u>	<u></u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,500)	(11,367)	1,133
FUND BALANCE, JULY 1	<u>14,379</u>	<u>14,379</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>1,879</u></u>	\$ <u><u>3,012</u></u>	\$ <u><u>1,133</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DRUG LAW ENFORCEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Fines and forfeitures	\$ 100	\$ 206	\$ 106
Interest	<u>150</u>	<u>39</u>	<u>(111)</u>
TOTAL REVENUES	<u>250</u>	<u>246</u>	<u>(4)</u>
EXPENDITURES			
Public safety	<u>1,280</u>	<u>1,269</u>	<u>11</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,030)	(1,023)	7
FUND BALANCE, JULY 1	<u>2,076</u>	<u>2,076</u>	<u></u>
FUND BALANCE, JUNE 30	<u>\$ 1,046</u>	<u>\$ 1,053</u>	<u>\$ 7</u>

NONMAJOR CAPITAL PROJECTS FUNDS

Capital Projects Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. (Enterprise Fund resources are not included in this category). These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Projects Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose, and further enables them to report to creditors and other grantors of Capital Projects Funds revenue, that their requirement regarding the use of the revenue was fully satisfied.

The Public Improvement Fund operates as a Capital Projects Fund.

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
PUBLIC IMPROVEMENT
JUNE 30, 2006

ASSETS

Cash and cash equivalents

\$ 175,680

FUND BALANCE

Reserved for fire

\$ 175,680

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUBLIC IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Sale of vehicle	\$ 1,000	\$	\$ (1,000)
Interest earned	<u>1,600</u>	<u>3,625</u>	<u>2,025</u>
TOTAL REVENUES	<u>2,600</u>	<u>3,625</u>	<u>1,025</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>30,000</u>	<u>30,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	32,600	33,625	1,025
FUND BALANCE, JULY 1	<u>142,056</u>	<u>142,055</u>	
FUND BALANCE, JUNE 30	<u>\$ 174,656</u>	<u>\$ 175,680</u>	<u>\$ 1,025</u>

ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The Utility Fund is operated as an Enterprise Fund.

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

BALANCE SHEET

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Imprest cash	\$ 450
Cash and cash equivalents	573,209
Receivables	
Accounts - net of allowance for doubtful accounts of \$7,726 in 2006	779,178
Due from state	557,541
Note receivable - current portion	959
Due from other funds	191,454
Inventory - at lower of cost or market	<u>252,254</u>
TOTAL CURRENT ASSETS	<u>2,355,044</u>

RESTRICTED ASSETS

Electric utility reserve	
Certificate of deposit	461,647
Accrued interest receivable	5,282
Customer meter deposits	120,660
Sewer reserve	
Certificate of deposit	223,987
Accrued interest receivable	3,224
Bond retirement reserve	
Certificate of deposit	612,587
Accrued interest receivable	18,147
Economic Development Reserve	
Certificate of deposit	350,339
Accrued interest receivable	<u>5,043</u>
TOTAL RESTRICTED ASSETS	<u>1,800,915</u>

PROPERTY, PLANT AND EQUIPMENT

Work in progress	8,236,833
Water department	6,911,177
Electric department	6,576,733
Sewage department	<u>4,836,226</u>
	26,560,969
Less: accumulated depreciation	<u>10,025,097</u>
NET PROPERTY PLANT AND EQUIPMENT	<u>16,535,872</u>

OTHER ASSETS

Note receivable - long-term	<u>20,477</u>
-----------------------------	---------------

TOTAL ASSETS	\$ <u>20,712,309</u>
--------------	----------------------

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Bonds payable	\$ 560,000
Note payable	57,373
Accounts payable	571,307
Accrued interest payable	70,432
Accrued sick and vacation	37,065
Accrued payroll and payroll taxes	31,035
Due to state	10,850

TOTAL CURRENT LIABILITIES

1,338,063

LONG-TERM DEBT

Bond payable	9,188,732
Note payable	240,395

TOTAL LONG-TERM DEBT

9,429,127

RESTRICTED LIABILITIES

Refundable meter deposits	120,660
---------------------------	---------

TOTAL LIABILITIES

10,887,849

FUND EQUITY

CONTRIBUTED CAPITAL

Local	351,584
Federal - net of amortization of \$2,113,080 in 2006	785,432
State - net of amortization of \$205,865 in 2006	397,412

TOTAL CONTRIBUTED CAPITAL

1,534,429

RETAINED EARNINGS

Reserved for Economic Development	429,508
Reserved for Bond/Note Retirement	964,345
Reserved for Electric Utility	617,703
Reserved for Sewer Utility	249,636
Reserved for Water Utility	19,527
Unreserved	6,009,313

TOTAL RETAINED EARNINGS

8,290,032

TOTAL FUND EQUITY

9,824,461

TOTAL LIABILITIES AND FUND EQUITY

\$ 20,712,310

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2006

OPERATING REVENUES	
Charges for services	\$ 8,878,656
Fines and forfeitures	22,629
Other revenue	<u>16,500</u>
TOTAL OPERATING REVENUES	<u>8,917,786</u>
OPERATING EXPENSES	
Operating expenses	7,312,789
Depreciation	<u>499,445</u>
TOTAL OPERATING EXPENSES	<u>7,812,234</u>
OPERATING INCOME	<u>1,105,551</u>
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	123,295
Interest and fees on bonds	(240,469)
Interest on investments	<u>115,079</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(2,095)</u>
NET INCOME BEFORE OPERATING TRANSFERS	1,103,456
OPERATING TRANSFERS OUT	<u>(1,026,900)</u>
NET INCOME	76,556
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITION AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018
RETAINED EARNINGS, JULY 1	8,202,545
PRIOR PERIOD ADJUSTMENT	<u>(38,087)</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 8,290,032</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 8,836,742
Cash received from penalties	19,266
Cash received from miscellaneous sources	16,501
Payments to suppliers	(6,394,064)
Payments to employees	<u>(1,039,280)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,439,165</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from note receivable	936
Interest income	<u>115,080</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>116,016</u>

**CASH FLOWS FROM NON-CAPITAL
FINANCING ACTIVITIES**

Operating transfers out	<u>(1,026,900)</u>
-------------------------	--------------------

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Increase in restricted assets	(14,982)
Increase in restricted liabilities	3,770
Decrease in long-term debt	(203,303)
Interest and fiscal charges	(200,285)
Bond proceeds	4,773,743
Work in progress	(1,901,587)
Purchase of capital assets	<u>(2,858,580)</u>

**NET CASH USED IN CAPITAL AND RELATED
FINANCING ACTIVITIES**

(401,224)

**NET INCREASE IN CASH AND
CASH EQUIVALENTS**

127,057

CASH AND CASH EQUIVALENTS, JULY 1

446,601

CASH AND CASH EQUIVALENTS, JUNE 30

\$ 573,658

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS - Concluded
FOR THE YEAR ENDED JUNE 30, 2006

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY (USED IN) OPERATIONS

Operating income	\$ 1,105,551
Prior period adjustment	(38,087)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation	499,445
Change in assets and liabilities	
Increase in accounts receivable	(59,826)
Decrease in inventory	103,252
Increase in accounts payable	(166,190)
Increase in accrued payroll	(5,460)
Decrease accrued sick and vacation	(419)
Increase in other liabilities	900
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>1,439,166</u></u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
ANALYSIS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	ELECTRIC DEPARTMENT	WATER DEPARTMENT	SEWAGE DEPARTMENT	TOTAL
REVENUES				
Charges for services	\$ 7,443,528	\$ 723,722	\$ 711,407	\$ 8,878,656
Fines and forfeitures	22,629			22,629
Other revenue	<u>10,743</u>	<u>4,156</u>	<u>1,602</u>	<u>16,500</u>
TOTAL REVENUES	<u>7,476,899</u>	<u>727,878</u>	<u>713,009</u>	<u>8,917,786</u>
OPERATING EXPENSES	5,908,336	543,978	860,475	7,312,789
DEPRECIATION	<u>220,201</u>	<u>145,632</u>	<u>133,612</u>	<u>499,445</u>
TOTAL OPERATING EXPENSES	<u>6,128,538</u>	<u>689,610</u>	<u>994,087</u>	<u>7,812,234</u>
OPERATING INCOME (LOSS)	<u>1,348,362</u>	<u>38,268</u>	<u>(281,078)</u>	<u>1,105,551</u>
NON-OPERATING REVENUES (EXPENSES)				
Property taxes			123,295	123,295
Interest and fees on bonds	(10,547)	(83,975)	(145,947)	(240,469)
Interest on investments	<u>90,717</u>	<u>13,030</u>	<u>11,332</u>	<u>115,079</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>80,170</u>	<u>(70,945)</u>	<u>(11,320)</u>	<u>(2,095)</u>
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,428,531	(32,677)	(292,398)	1,103,456
OPERATING TRANSFERS OUT	<u>(1,026,900)</u>			<u>(1,026,900)</u>
NET INCOME (LOSS)	<u>\$ 401,631</u>	<u>\$ (32,677)</u>	<u>\$ (292,398)</u>	<u>\$ 76,556</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	ELECTRIC	WATER	SEWAGE	TOTAL
OPERATING EXPENSES				
Personnel services	\$ 377,793	\$ 249,434	\$ 406,173	\$ 1,033,400
Contractual services	69,537	13,133	55,966	138,636
Supplies	19,379	12,372	12,677	44,429
Materials	144,133	71,048	39,755	254,936
Utilities	14,016	35,268	129,867	179,151
Telephone	15,943	2,684	2,667	21,294
Insurance	21,013	9,906	12,067	42,986
Maintenance	5,020,845	12,969	6,808	5,040,622
Benefit payments	187,324	129,180	180,413	496,917
Other expense	38,354	7,983	14,083	60,420
Depreciation	<u>220,201</u>	<u>145,632</u>	<u>133,612</u>	<u>499,445</u>
TOTAL OPERATING EXPENSES	\$ <u><u>6,128,538</u></u>	\$ <u><u>689,610</u></u>	\$ <u><u>994,087</u></u>	\$ <u><u>7,812,234</u></u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Public Employee Benefit Fund and Motor Vehicle Pool are operated as Internal Service Funds.

CITY OF EATON RAPIDS, MICHIGAN

COMBINING BALANCE SHEET

INTERNAL SERVICE FUNDS

JUNE 30, 2006

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ <u>1,197</u>	\$ <u>189,698</u>	\$ <u>190,895</u>
EQUIPMENT			
Vehicles		207,279	207,279
Less: accumulated depreciation	<u> </u>	<u>97,248</u>	<u>97,248</u>
NET EQUIPMENT	<u> </u>	<u>110,031</u>	<u>110,031</u>
TOTAL ASSETS	\$ <u><u>1,197</u></u>	\$ <u><u>299,729</u></u>	\$ <u><u>300,926</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
FUND EQUITY			
Unreserved	<u>1,197</u>	<u>299,729</u>	<u>300,926</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>1,197</u></u>	\$ <u><u>299,729</u></u>	\$ <u><u>300,926</u></u>

CITY OF EATON RAPIDS, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
OPERATING REVENUES			
Contributions from other funds	\$ 641,600	\$	\$ 641,600
Other revenue	<u>10,078</u>	<u>7,926</u>	<u>18,004</u>
TOTAL OPERATING REVENUES	<u>651,678</u>	<u>7,926</u>	<u>659,604</u>
OPERATING EXPENSES			
Repairs and maintenance		10,263	10,263
Depreciation		41,778	41,778
Benefit payments	<u>657,187</u>		<u>657,187</u>
TOTAL OPERATING EXPENSES	<u>657,187</u>	<u>52,041</u>	<u>709,227</u>
OPERATING LOSS BEFORE OPERATING TRANSFERS	(5,508)	(44,115)	(49,623)
OPERATING TRANSFERS IN		<u>78,400</u>	<u>78,400</u>
NET INCOME (LOSS)	(5,508)	34,285	28,777
RETAINED EARNINGS, JULY 1	<u>6,705</u>	<u>265,444</u>	<u>272,149</u>
RETAINED EARNINGS, JUNE 30	\$ <u><u>1,197</u></u>	\$ <u><u>299,729</u></u>	\$ <u><u>300,926</u></u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$ 641,600	\$	\$ 641,600
Cash received from miscellaneous	10,079	7,926	18,005
Payment to vendors	<u>(657,187)</u>	<u>(10,263)</u>	<u>(667,450)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(5,508)</u>	<u>(2,337)</u>	<u>(7,845)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in	<u></u>	<u>78,400</u>	<u>78,400</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u></u>	<u>(21,934)</u>	<u>(21,934)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(5,508)</u>	<u>54,129</u>	<u>48,621</u>
CASH AND CASH EQUIVALENTS, JULY 1	<u>6,705</u>	<u>135,569</u>	<u>142,274</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 1,197</u></u>	<u><u>\$ 189,698</u></u>	<u><u>\$ 190,895</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (5,508)	\$ (44,115)	\$ (49,623)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	<u></u>	<u>41,778</u>	<u>41,778</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (5,508)</u></u>	<u><u>\$ (2,337)</u></u>	<u><u>\$ (7,845)</u></u>

PERMANENT FUNDS

The permanent funds exist to account for resources legally held in trust to be used for Cemetery Perpetual Care Fund and the Ted Oliver Memorial Fund.

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2006

	NONEXPENDABLE TRUST FUND CEMETERY PERPETUAL CARE FUND	NONEXPENDABLE TRUST FUND TED OLIVER MEMORIAL FUND	TOTALS
ASSETS			
Cash and cash equivalents	\$ <u>134,728</u>	\$ <u> </u>	\$ <u>134,728</u>
FUND BALANCE			
Reserved for perpetual care	\$ <u>134,728</u>	\$ <u> </u>	\$ <u>134,728</u>

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2006

	CEMETERY PERPETUAL CARE FUND	TED OLIVER MEMORIAL TRUST FUND	TOTALS
REVENUES			
Perpetual care receipts	\$ <u>11,900</u>	\$ <u> </u>	\$ <u>11,900</u>
EXPENDITURES			
Other	<u> </u>	<u>297</u>	<u>297</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>11,900</u>	<u>(297)</u>	<u>11,603</u>
FUND BALANCE, JULY 1	<u>122,828</u>	<u>297</u>	<u>123,125</u>
FUND BALANCE, JUNE 30	\$ <u><u>134,728</u></u>	\$ <u><u> </u></u>	\$ <u><u>134,728</u></u>

CITY OF EATON RAPIDS, MICHIGAN
PERMANENT FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	CEMETERY PERPETUAL CARE FUND	TED OLIVER MEMORIAL TRUST FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ <u>11,900</u>	\$ <u>(297)</u>	\$ <u>11,603</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,900	(297)	11,603
CASH AND CASH EQUIVALENTS, JULY 1	<u>122,828</u>	<u>297</u>	<u>123,125</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u><u>134,728</u></u>	\$ <u><u> </u></u>	\$ <u><u>134,728</u></u>



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Eaton Rapids, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Eaton Rapids, Michigan's basic financial statements and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Eaton Rapids, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eaton Rapids, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Eaton Rapids, Michigan, in a separate letter dated November 8, 2006.

This report is intended solely for the information and use of management of the City of Eaton Rapids and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
November 8, 2006

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

Merrick A. Richardson, CPA
Principal
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

David Layton, CPA
DaveLayton@LNRCPA.com



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

Compliance

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

Merrick A. Richardson, CPA
Principal
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

David Layton, CPA
DaveLayton@LNRCPA.com

We have audited the compliance of the City of Eaton Rapids, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Eaton Rapids, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Eaton Rapids, Michigan's management. Our responsibility is to express an opinion on the City of Eaton Rapids, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the City of Eaton Rapids, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Eaton Rapids, Michigan's compliance with those requirements.

In our opinion, the City of Eaton Rapids, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of City of Eaton Rapids, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated November 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Eaton Rapids, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis is required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the management, the City Council and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Layton & Richardson PC

Certified Public Accountants

East Lansing, Michigan
November 8, 2006

CITY OF EATON RAPIDS, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a unqualified opinion on the general purpose financial statements of the City of Eaton Rapids.
2. No reportable conditions relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the City of Eaton Rapids were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Eaton Rapids expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City of Eaton Rapids.
7. The programs tested as major programs included: Department of Environmental Clean Water Revolving Grant Loan, CFDA No. 66.458
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. The City of Eaton Rapids was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CITY OF EATON RAPIDS, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1: **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Eaton Rapids, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF EATON RAPIDS, MICHIGAN
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT PERIOD FROM TO	
U.S. Department of Environmental Office of Water, Environmental Protection Agency Passed-through Michigan Department of Environmental Clean Water Revolving Grant Loan	66.458	9/23/2004	9/23/2007
U.S. Department of Environmental Passed-through Michigan Department of Environmental Quality	66.460	3/20/2006	12/31/2006
U.S. Department of Justice Passed-through Michigan Homeland Security Grant	97.004	1/1/2006	12/31/2006
TOTALS			

PRIOR YEAR		CURRENT YEAR	
FEDERAL REVENUES	FEDERAL EXPENDITURES	FEDERAL REVENUES	FEDERAL EXPENDITURES
\$ 671,570	\$ 671,570	\$ 1,111,257	\$ 1,111,257
		3,815	3,815
		11,013	11,013
\$ <u>671,570</u>	\$ <u>671,570</u>	\$ <u>1,126,085</u>	\$ <u>1,126,085</u>



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

Merrick A. Richardson, CPA
Principal
Rick@LNRCPA.com

Vickie L. Crouch, CPA, CGFM
Principal
Vickie@LNRCPA.com

Stephen D. Plumb, JD, CPA
Principal
Steve@LNRCPA.COM

David Layton, CPA
DaveLayton@LNRCPA.com

We have examined the financial statements of the CITY OF EATON RAPIDS, MICHIGAN the year ended June 30, 2006, and have issued our report thereon dated November 8, 2006. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Eaton Rapids is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Eaton Rapids may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses:

PRIOR YEAR RECOMMENDATIONS

UTILITY RECEIVABLES

An adjustment had to be made to balance the utilities receivables to the general ledger. We recommend that the utility receivable trial balance be reconciled monthly to the general ledger. This will ensure more accuracy in the utility billing procedures. **This recommendation has not been implemented, but is in the process of being corrected during the current year by reconciling every month.**

UTILITY METER DEPOSITS

We noted during our audit that an adjustment needed to be made to balance utility meter deposit accounts. We recommend that this account be reconciled to the general ledger on a monthly basis. This will ensure better accuracy of the utility meter deposits. **This recommendation has not been implemented. We understand that the difference results from a software problem and will be corrected during the current year.**

PRIOR YEAR RECOMMENDATIONS – Continued

PROPERTY TAXES

We recommend that the tax fund general ledger be reconciled with property tax software on a monthly basis to ensure that all property tax collections and payments are recorded properly. **Management response: This is currently in the process of being reconciled.**

GENERAL

The City does not have a written internal control policy. We recommend that the City create a written internal control policy stating that deviation from these policies is a possible firing offense. This will prevent fraud and make everyone aware of the City's policy on fraud. **Management response: This is in the process of being implemented.**

PAYROLL

Some authorization forms in the employees files are either for the wrong amount or very old. We recommend authorization forms be filled out each year for all of the employees' payroll deductions. This will provide accurate and adequate records and verify the correct amount is being deducted from the employees' payroll. **This recommendation has not been implemented.**

Some payroll deduction authorization forms did not have the amount of the deduction authorized written on the form. We recommend the amount of the authorized deduction be written on all authorization forms. This will verify that the correct amount is being deducted from the employees' payroll. **This recommendation has been implemented.**

During our audit, we noted that some authorization forms were not filled out or signed by the employees themselves. We recommend that all authorization deduction forms be filled out and signed by the employees themselves. We also recommend checking to make sure that the correct exemption information is in the computer for each employee. Additionally, we recommend that FICA payroll rates and wage limits be updated and verified each year. This will ensure that the correct amounts of withholdings are being deducted from the employees' payroll. **These recommendations have been implemented.**

We noted an instance where the payroll had been printed over some checks and therefore were not issued. However, they were not properly voided. We recommend that any check that is not issued should have "VOID" written across it. This will prevent checks from being wrongly issued. **This recommendation has been implemented.**

Our audit disclosed that there is no procedure to review the payroll journal prior to printing payroll checks. We recommend that the payroll journal be reviewed by a person independent of the check printing function prior to the printing of checks. This will improve controls over the payroll function. **This recommendation has not been implemented.**

UTILITY BILLING

During our audit, we noted the same person who creates the utility bills also sends out the bills. We recommend that a person independent of the billing generation process actually send out the bills. This will separate the duties and improve controls in the utility billing system. **This recommendation has been implemented.**

CASH RECEIPTS

We noted during our audit that the yellow copy of the voided cash receipts are included with the other yellow copy of the receipts and therefore are not attached to the cash transmittal report. We recommend attaching the yellow copy of voided cash receipts to the cash transmittal sheets. By implementing this recommendation it would not be necessary to go to the actual receipt book to find the yellow copy of the voided cash receipt. It will ensure all source documentation is kept together and will more easily show that the receipts were used in sequential order. **This recommendation has been implemented.**

During our audit, we noted that some receipt numbers were used out of order. We recommend using the receipts in sequential order. This will improve controls over cash receipts and help to prevent theft or fraud. **This recommendation has not been implemented.**

PRIOR YEAR RECOMMENDATIONS – Concluded

CASH DISBURSEMENTS

We noted during our audit that the same person at City Hall that prepares disbursements also approves invoices for payment. We recommend that the City Manager approve all City Hall invoices (invoices not for the departments) for payment. Implementing this recommendation will separate the approval and payments function and improve controls over cash disbursements. The invoices go to the department heads for review and approval. We recommend the department head initial the invoice. This will involve another individual, thereby, creating a segregation of duties between invoice approval and disbursement. **This recommendation has not been implemented.**

During our audit, we noted that some invoices were not initialed for approval. We recommend that all invoices be approved before checks are prepared and issued. This will improve controls over cash disbursements and help to prevent fraud. **This recommendation has been implemented.**

We noted that some source documents were monthly statements rather than actual invoices. We recommend paying only from original invoice(s). The invoice(s) can be held until a monthly statement is received. The monthly statement can then be attached to the original invoice(s). A check can then be issued to pay the original invoice(s). This will reduce the chance of duplicate payment of the invoice(s) covered by the monthly statement and improve controls over cash disbursements. **This recommendation has been implemented.**

CURRENT YEAR RECOMMENDATIONS

CASH RECEIPTS

We noted during our testing an invoice was voided in the computer system but was used in the receipt book. We recommend the receipt be voided in the receipt book if it is voided in the computer system, and vice versa. This will greatly improve controls over receipts and ensure that the computer system and the receipt book are in agreement.

We noted during our testing a receipt was skipped and the following day that receipt was used. We recommend receipts be used in sequential order. If a receipt is skipped because the page was turned accidentally, that receipt should be voided rather than being used the following day as this allows the receipts to be used out of sequential order. This will improve controls over receipts, help to reduce the chance of fraud, and help to detect fraud.

CASH DISBURSEMENTS

We noted during our testing instances were not all source documentations were cancelled. We recommend all source documentation be cancelled. This will help to ensure no source documentation is double paid and therefore increases controls over disbursements.

We noted during our testing instances where the source documentation(s) were created by the City. These instances were for the Planning Commission Meeting per diem and Winter Tax Disbursement Record. We recommend attaching the attendance list from the minutes of the meetings for any per diem meeting payment. We also recommend attaching a "Tax Receipt Summary Statistics" to any tax disbursements. This will improve controls over disbursements by providing supporting documentation for the amounts paid.

PAYROLL

We noted during our testing instances where authorized payroll deductions were missing from the employee file. They were filed in a different file. We recommend the authorizations for payroll deductions be put in the employee file. Copies of these can be made and put in a different file. This will ensure the employee files contain all authorizations for all payroll deductions and thereby improve controls over payroll.

We noted during our testing the individual who prepares payroll is the same individual who prepares the payroll tax returns. We recommend the individual who prepares the payroll tax returns be independent of the payroll processing function. This will improve controls over payroll.

CURRENT YEAR RECOMMENDATIONS – Concluded

PAYROLL - Concluded

During our audit, we noted that the same person who prepares electronic funds transfers also receives the bank confirmations. We recommend the City Manager authorize EFT transactions and receive all EFT confirmations from the bank and compare to the authorized transactions.

During our audit, we noted that the bank statements are not reviewed by an independent person prior to reconciliation. We recommend that the City Manager receive the unopened statements, open and review the statements for unusual activity, and initial the statements prior to giving to the person performing the reconciliation.

During our audit, we noted that MERS earnings and contributions are not reviewed by an individual independent of the data entry. We recommend that the City request a printout of entered data verified by the state and an individual independent of the data entry compare the printout with payroll records. Also, the contribution confirmation should be received and reviewed by a person independent of making the electronic transmission.

TAX FUND

We recommend that a separate checking account be established and used only for property tax receipts and disbursement. This will reduce the possibility of the property tax transactions being recorded incorrectly in another one of the City's fund.

GENERAL

Fund Deficit

During the current year, the City incurred a fund deficit in the Building Authority fund of \$52,636. We recommend this deficit be taken care of immediately with a transfer from another fund.

Investment and Credit Card Policy

We recommend that the City update the investment policy to be in compliance with GASB 40. Also, the City's credit policy should be reviewed and updated.

We are grateful to the officials and employees of the City of Eaton Rapids for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,

A handwritten signature in black ink that reads "Layton + Richardson PC". The signature is written in a cursive, flowing style.

Certified Public Accountants

East Lansing, Michigan
November 8, 2006